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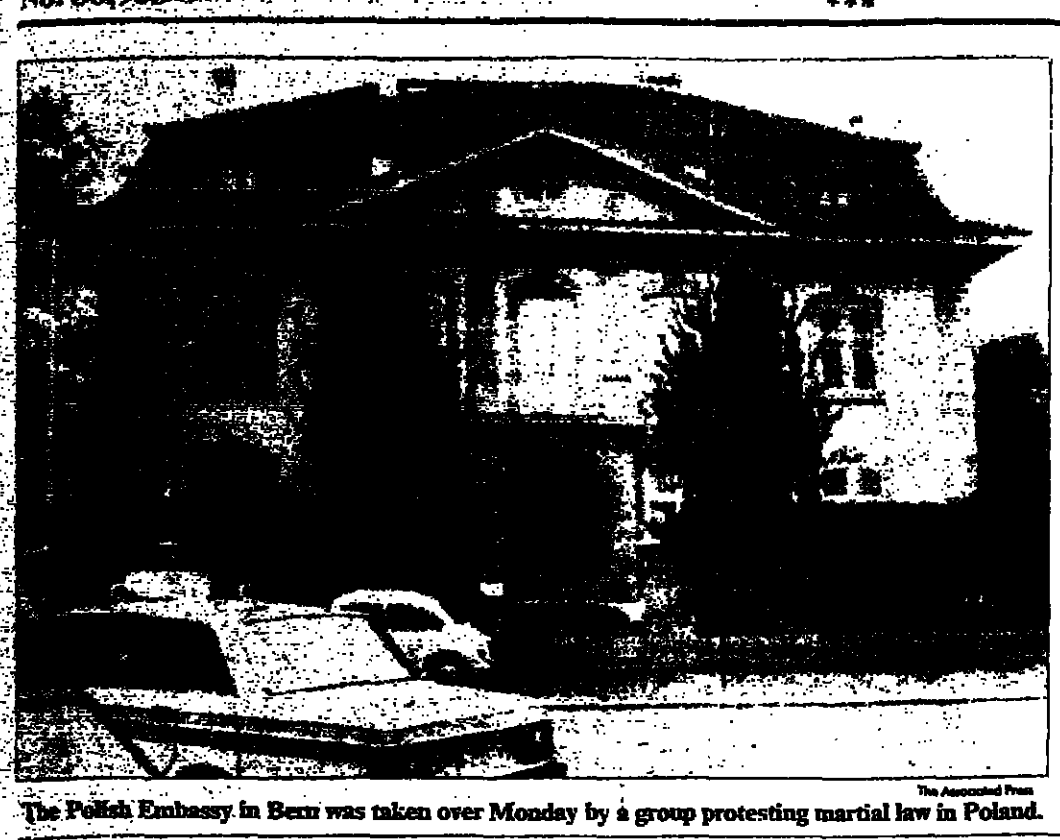


The Associated Press

The Polish Embassy in Bern was taken over Monday by a group protesting martial law in Poland.

Poland's Embassy in Bern Is Seized

Compiled by Our Staff From Dispatches

BERN — Armed men declaring opposition to Poland's military government occupied the Polish Embassy in Bern Monday, took at least nine diplomats hostage and threatened to blow up the building within 48 hours, Swiss officials said.

Swiss radio reported that shots were fired, but police said that, although some loud noises were heard from the building, there was no confirmation of any shooting.

The occupiers, described as between two and five in number, threw a message out of an embassy window demanding an end to martial law in Poland and the release of political prisoners by the military government.

They said they belonged to a Polish "Home Army — Front of National Liberation," recalling a similarly named force that staged an uprising against the German occupying army in Warsaw in 1944.

Police sources in Bern said they believed the group numbered about three.

One of the intruders, who called himself Colonel Wysocki, told The Associated Press' Geneva bureau by telephone that the occupiers were "armed with heavy machine guns" and 55 pounds of dynamite, enough to "blow this shack away, and everyone in it."

Claim by Leader

He would not say how many persons were in his group, but claimed they were holding 13 hostages, "all diplomatic personnel." Earlier, an embassy official, also contacted by telephone, said the intruders were holding "eight or nine" embassy personnel.

The Polish Foreign Ministry confirmed that the embassy had been seized but declined comment on the demands. A ministry spokesman in Warsaw said the embassy's chief diplomatic officer, Stanislaw R. Dobrowolski, the chargé d'affaires, was in Poland on vacation. Poland has no ambassador in Switzerland.

Swiss authorities said the embassy, which was seized at 10 A.M., was surrounded by police officers.

Colonel Wysocki said his group was "an anti-communist paramilitary organization without connections" to the suspended Solidarity union or to KOR, the disbanded Polish dissidents' group whose leadership had advised the union.

Swiss authorities and Solidarity spokesmen elsewhere in Europe said they had never heard of the group. The Swiss government, which passed the occupiers' demands to the Polish government, condemned the embassy seizure as a criminal act.

A special group of senior Swiss officials led by Justice Minister Kurt Furgler took charge.

Apart from the end of martial law and release of prisoners, the message thrown from the window and written in Polish demanded that repression against the Polish people be stopped.

By evening, no reply had been received from the Polish government and officials said the Swiss authorities were planning action by security forces, which they declined to specify.

The occupiers strolled casually and virtually unnoticed into the building Monday morning. A neighboring dentist told Reuters that one of his patients saw three men lying down in a car parked outside the building shortly beforehand.

"Then, suddenly, police were all over the place," he said.

The first demands were telephoned to police by a man who spoke German with an accent. Several journalists later reported receiving calls from the occupiers.

The message said the occupiers would free the diplomats and other staff they were holding if their demands were met but that otherwise they would blow up the building, the hostages and themselves. It said the embassy had been seized to protest "the declaration of war by the fascist regime of Poland on December 31, 1981" — the date martial law was imposed.

The seizure was the first major guerrilla-style action, inside or outside Poland, against martial law.

■ **Gomulka Is Buried**

Wladyslaw Gomulka, former Polish Communist leader who lost power following worker riots in 1970, was buried with full state and military honors Monday as officials announced another death from last week's nationwide pro-Solidarity demonstrations, United Press International reported from Warsaw.

As many as 20,000 people packed the Powadzki military cemetery in Warsaw, where top officials, including Gen. Wojciech Jaruzelski, gave a final salute to Mr. Gomulka, who died of cancer Wednesday at 77.

The death of Michal Adamowicz, 28, a miner shot by police in Lubin, raised the official death toll in last week's clashes to five — three in Lubin, one in Wroclaw and one in Gdansk.

Israel Sees Delay of Months in Talks

By Edward Walsh
Washington Post Service

JERUSALEM — President Ronald Reagan's Middle East peace initiative has seriously complicated efforts to revive the Camp David autonomy talks, which will now have to be put off for months, senior Israeli officials said Monday.

Only two weeks after Prime Minister Menachem Begin told three visiting U.S. congressmen that Israel would not wait for the withdrawal of Israeli and Syrian troops from Lebanon before seeking a resumption of the talks, Foreign Minister Yitzhak Shamir said Monday that the situation in Lebanon should be settled before the autonomy negotiations are resumed.

At that point, Mr. Shamir was quoted as telling ambassadors from the 10 European Community countries, "The time will be right to resume the autonomy talks."

Officials conceded that this could take months, but they placed the blame for any delays squarely on the Reagan proposals, which the Israeli cabinet last week bluntly rejected.

"Obviously some time will have to elapse, because this is not the right atmosphere," a senior official said. "It may be that we are months away. I truly think we will continue with the peace process. But now, because of this American position that has complicated matters, we are not so close anymore."

The Camp David talks on the proposed interim five-year period of autonomy for the Palestinian inhabitants of the West Bank and Gaza Strip were unlikely to resume soon in any event because of Egyptian insistence that Israel first withdraw its forces from Lebanon.

Satisfied With Deadlock

But Monday's comments by Mr. Shamir and other senior officials were a clear indication that Israel will be more than satisfied with a continued deadlock in the negotiations while it pursues its policy of establishing settlements in the occupied territories.

Mr. Reagan called last week for an immediate freeze on new and established settlements to help revive the autonomy talks and suggested that the future of the West Bank and Gaza should involve an unspecified link to Jordan.

The Israeli government quickly rejected the proposal and, in a direct challenge to Mr. Reagan on Sunday, approved new settlements in the West Bank and gave official government status to an existing Jewish community in Gaza.

Unlike former President Jimmy Carter, Mr. Reagan said early in his term that he did not consider the settlements to be illegal, and until last week he had made no major public objections to their continued establishment by Israel.

In a radio interview, Yitzhak Modai, a minister without portfolio, said, "Now you will, of course, notice that on all previous occasions, or most previous occasions, where new settlements have been set up, the American administration did not react this way and that by itself is a confirmation that that was in line with the American understanding of Camp David."

Another official said that since Mr. Reagan took office, "we haven't heard a whisper from Washington" about settlements. "We don't see why they are getting so excited about it," he added.

By linking the future of the autonomy talks to Israeli and Syrian withdrawal from Lebanon, Mr. Shamir in effect suggested an open-ended delay in the negotiations. Israeli officials have publicly expressed confidence that a mutual withdrawal agreement can be reached with Syria, but in the meantime the Israeli Army is making preparations to remain in Lebanon through the coming winter.

Meanwhile, the Israeli Military Command demanded the immediate return of eight Israeli soldiers who were captured over the weekend at an observation post near Syrian lines in eastern Lebanon.

Terming the capture "a most serious violation of the cease-fire," military authorities said: "Israel knows the men were captured alive and well and expects them to be returned in the same condition."

■ **Israel Warns Lebanon**

Washington Post correspondent Loren Jenkins reported from Beirut:

Israel warned the Lebanese government on Monday that unless leftist militiamen facing their troops in the southern outskirts of West Beirut withdrew, the Israeli Army would advance deeper into the Moslem sector of the Lebanese capital.

Israeli troops moved forward on Friday from their previous lines into Bir Hassan — a neighborhood of Arab embassies, modern apartments, and two United Nations office buildings that had constituted the PLO's southern line of defense throughout the summer siege of Beirut.

A French officer in the UN peacekeeping forces was killed by a sniper's bullets in the nation. Western diplomats said Monday that he was apparently killed as he sought to take pictures of the Israeli advance.

The Associated Press

ARAFAT IN FEZ — Yasser Arafat, left, the PLO leader, was greeted Monday by King Hassan II of Morocco after Mr. Arafat arrived to attend the meeting of Arab leaders in Fez. Page 2.

U.S. Seeking Ideas to End Pipeline Ban

Regan Urges Europe To Offer Suggestions

Reuters

TORONTO — Donald T. Regan, the U.S. Treasury secretary, said Monday that the Reagan administration might reconsider its sanctions on the Soviet gas pipeline if West European countries could find a way to resolve the dispute.

"We would welcome any such approach that other nations might have toward a settlement of these problems," said Mr. Regan, who is heading the U.S. delegation to the meeting in Toronto of the International Monetary Fund and the World Bank. "If indeed they are worthwhile and substantial, then we might want to consider the repercussions of what we are doing."

Speaking at a news conference, Mr. Regan said that he had had several discussions with West European officials and that the Europeans had expressed regret at the sanctions, which President Ronald Reagan first announced in December and then expanded in June.

The sanctions were applied to slow or stop construction of the pipeline from Siberia to Western Europe as U.S. retaliation for repressive measures in Poland. The sanctions prevent U.S. companies, their subsidiaries overseas and foreign companies operating under U.S. licenses from exporting U.S. oil and gas equipment or technology that would be used for the pipeline.

The West European countries most affected by the sanctions — France, Britain, West Germany and Italy — have instructed their companies to fulfill contracts and supply such equipment.

West German Turbines

In Frankfurt, industry sources said Monday that two West German-built turbines for the pipeline probably would be shipped to the Soviet Union soon. They contain rotors made by General Electric of the United States.

The turbines, made by the AEG-Kanis subsidiary of AEG-Telefunken, will probably be loaded on a Soviet freighter this week or next, either in Hamburg or Rotterdam, the sources said.

A freighter left the Italian port of Livorno Sunday with two turbines made by Nuovo Pignone, a state-owned company, and another is waiting to sail from Glasgow with six turbines produced by John Brown Engineering Co.

The U.S. government announced trade sanctions against Nuovo Pignone and threatened reprisals against John Brown if the turbines were shipped from Glasgow. Two French-based companies, Creusot-Loire and Dresser

(Continued on Page 2, Col. 8)

Chinese Adopt a New Constitution Making Way for Younger Leaders

By Michael Weisskopf
Washington Post Service

BEIJING — The Communist Party on Monday approved a new constitution committing it to a pragmatic course and laying the legal framework for the most orderly transition of power in modern Chinese history.

Ratified by the national party congress, the constitution sets up a semi-active central advisory commission to be filled by China's aged leaders, thus making way for a new breed of Communists more in line with the nation's economic modernization.

This puts to pasture an entire generation of Communist officials who won their stripes during the historic Long March in 1934 and have monopolized power ever since.

The post of party chairman, created by Mao nearly 50 years ago, will be abolished to remove the aura of omnipotence that turned Mao into an unchecked autocrat in his latter years. Heading the party will be a general secretary in charge of the policy-making and administrative organs.

Senior Post for Hu

Current Chairman Hu Yaobang, 67, is expected to become general secretary, but other Communist veterans in their 70s and 80s, including orthodox Marxists who oppose economic reforms, will withdraw to the advisory panel, which will supervise party affairs.

Deng Xiaoping, 78, the powerful deputy chairman who has kept China on the path of moderation for the past four years, is expected to join the council of elders, most likely as its head.

But a partial text of the new constitution, released Monday night, left it unclear whether Mr. Deng will completely retreat from active duty, as had been thought. According to the text, the head of the advisory board is to be selected from the Politburo's elite corps, known as the Standing Committee.

Conservative Opponents

From the active Standing Committee also will come the head of the Military Affairs Commission, which runs China's huge armed forces. Mr. Deng, now chief of that commission, had been expected to retain his post if the congress decided to keep the commission intact.

Senior Chinese officials said in recent weeks that Mr. Deng would give up his party posts and step into semi-retirement, leaving party operations to his trusted protégés, Mr. Hu and Premier Zhao Ziyang, while he sat on the sidelines as an adviser.

Other Chinese sources said Mr. Deng had agreed to step aside as part of a deal to ease out his conservative opponents, who were obstructing some of his reforms.

Although Mr. Deng will lose his deputy chairmanship in the party shakeup (all six deputy slots are wiped out with the chairmanship), he would have to maintain a Politburo seat and act as a Standing Committee member to head either the advisory or military commissions.

Party congress spokesman Zhu Muzhi said at a press conference Monday that some leaders "who enjoy very high prestige and rich experience in leadership" may be elected both to the advisory panel and active positions.

For Mr. Deng, the congress offered a chance not only to arrange for his own succession, but for the smoothest change of leadership in China since the 1911 revolution overthrowing the last empire.

As a political guide, the new constitution is a call to moderation, reflecting Mr. Deng's hope for a decade of stability to concentrate on modernizing China's backward economy and lifting standards of living.

Five years ago, the last party congress adopted a constitution extolling Mao's radical ideals and pledging that extremist movements like his Cultural Revolution, which had just ended, "will be carried out many times in the future."

INSIDE

Nixon, in Beijing, Lauds Limit on Taiwan Arms

The Associated Press

BEIJING — Richard M. Nixon arrived in Beijing Monday night and praised the recent Chinese-U.S. communiqué setting out a limit on U.S. arms sales to Taiwan as "an excellent agreement."

The former president, who opened the American door to China in 1972, arrived for a five-day private visit and celebration of the Shanghai communiqué he signed 10 years ago. The document paved the way for the restoration of Washington-Beijing diplomatic relations.

Nature of Gemayel's Future Ties To Israel Is Key Issue in Lebanon

By David Lamb
Los Angeles Times Service

NEWS ANALYSIS

BEIRUT — Now that the Palestinian guerrillas have left Beirut, the two questions raised most often in political discussions involve the Israelis: How long do they intend to stay in Lebanon, and what will President-elect Bashir Gemayel's relationship with them be?

Israel has more than 90,000 troops in Lebanon and was at least indirectly responsible for Mr. Gemayel's rise to power. Israeli arms equipped his rightist Christian militia, and the Israeli invasion made possible his election by the Chamber of Deputies without the traditional consensus of the Moslem and Christian communities.

The 34-year-old lawyer's victory came at the point of a gun and was marked by none of the backroom bargaining that has characterized the chamber's previous choices of a president, whom the constitution decrees must be a Christian. Mr. Gemayel was the only candidate. In the wartime chaos of the Aug. 23 election, his Israeli-backed militia made sure there would be no discussion on the matter.

The militiamen cut the phone lines between Christian East Beirut and Moslem West Beirut. Then they closed the crossing points on the so-called Green Line dividing the two sectors. No negotiations were possible. Some Moslem deputies boycotted the election. Others who tried to boycott it were forcibly brought in to vote by Mr. Gemayel's men.

When it was over, Israel had an apparent ally leading a neighboring country.

Although Prime Minister Menachem Begin has said that Israel covets not one square inch of Lebanon, there are fears among the Lebanese that, if Israel does not get what it wants, it will simply stay indefinitely, as it has done in the West Bank and Gaza Strip.

Those fears were not allayed when Mr. Begin congratulated Mr. Gemayel on his election with a letter that began, "My dear friend." Nor were they calmed by statements by several Israeli officials that Israel wants — some say intends — to sign a peace treaty with Lebanon.

The Israeli defense minister, Ariel Sharon, said Saturday that if Lebanon does not sign a peace treaty, Israel might establish what he called a "special status" security zone in southern Lebanon.

"We are willing to work for national reconciliation, but a treaty with Israel would be the line of confrontation" between Moslems and Mr. Gemayel, said Nabih Berri, leader of the Shiite Moslems.

Egypt signed such a treaty with Israel in 1979, but the Egyptian population is largely a homogeneous one and Anwar Sadat was a bold leader of stature. Lebanon is a splintered country and Mr. Gemayel is an unknown factor. Egypt was banished from the Arab community for signing the treaty and Lebanon is not eager to pay the same price.

So far, Mr. Gemayel, who takes office Sept. 23, appears to be trying subtly to put some distance between himself and the Israelis, and he has been embarrassed by the Begin government: Israel admitted that it had been arming Mr. Gemayel's militia, and Israeli radio reported that Mr. Gemayel had met secretly with Mr. Begin last week and had been chastised for making remarks about Israel that Mr. Begin considered negative.

Mr. Gemayel's office denied that any such meeting had taken place. But it is believed in Lebanon that, if the meeting had gone smoothly, Israel would have said nothing about it and thus spared Mr. Gemayel the uproar that its report caused in the Moslem community.

Without the support of the Moslems, Mr. Gemayel can be no more than a Christian chieftain. He is the leader of Lebanon's

(Continued on Page 2, Col. 1)

After a Hot Summer of Problems, Traditional French 'Rentrée' Is Bumpy

By John Vinocur
New York Times Service

PARIS — Normally, summer ends in France with a thud, the noise of millions of car doors and trunks slamming shut, as synchronized an element of public behavior as the French manage to produce. It is as if there were 50 million people sitting on a dock on a bay watching the sun set, then rushing for the parking lot.

Institutionalized as a holiday month, August was also mythologized in the years of postwar French prosperity as a month without care, a time when the newspapers stuck to serializing spy novels and printing recipes heavy on olives and eggplant.

August seemed to have marvelous immutable qualities, deep tropisms, too much a part of national life ever to change. It began with *les grands départs* on the last weekend in July and ended with *la rentrée* on Sept. 1.

This year, the marvelous, eternal order of things did not quite hold. August behaved badly. First, there was the terrible road accident on the first weekend of the month that killed 44 children, then the terrorist shootings and bombings, including six more blasts in Corsica at the weekend, and the continual counterpoint of bad economic news.

The calendar had its way too. Awkwardly, September began on Wednesday, creating maximalist and minimalist camps, those who saw summer ending the preceding Monday and came home, and those who prolonged it another week. The car doors did not all thump at once.

So August finished raggedly, dissatisfyingly. Some people were back at work, some were not. After a summer of considerable blood and anger, there was no clear sign, no Labor Day, to put it definitively in the past tense. France relishes imprecision, but it really thrives on certitude.

A sense of vagueness has washed over *la rentrée*, a word that means the back-to-business transition that takes place so determinedly in France because so many people leave their jobs all at once, and then return simultaneously.

Whatever is French has its own special, circumscribable *rentrée: la rentrée parlementaire, scolaire, gastronomique, théâtrale, littéraire.* The word is an indispensable part of the national vocabulary for a good month. There are medical and sentimental *rentrées*, and stores that advertise themselves as price champions of the *rentrée* or the kings of *rentrée* bargains.

You can have a successful *rentrée* or a doubtful one, or a promising one or a gray one.

French newspapers these days would have very little to write about if they were asked to stop speculating about why this *rentrée* — homecoming, return, reopening; English does not quite catch the full sense of the word — means a lot or only a little. It is a boon for politicians because it gives them a sense of a new start, a second wind in a long year, but it is treacherous as well because everyone is graded immediately on how they do.

Edge of Negativism

A year and a half into socialism, nobody seems sure of how things will turn out, and it is this vagueness, this caution, this edge of negativism that best catches the mood of things.

What has gone out of the experience is the expectation of many Frenchmen, and the approach of many of those who govern, that something marvelous is about to happen. After the rather austere new budget for 1983, which implicitly recognizes that France could not buy its way out of recession, Prime Minister Pierre Mauroy came very close to admitting that his government had been practicing hocus-pocus economics. "After our election," he told a visitor last week, "we had the idea a bit that we were magicians."

Both the popularity of President François Mitterrand and Mr. Mauroy is on the slide, and the polls show increasing pessimism about the chance of any improvements. But the same polls hardly suggest the French have turned their back on their leaders. Mr. Mitterrand still gets a majority of favorable opinion and Mr. Mauroy is close to 50 percent. Who else should govern, then?

On the basis of pure popularity, the polls say it is not a Valéry Giscard d'Estaing or a Jacques Chirac, who are well behind, but another Socialist, Michel Rocard, outrunning all the rest.

Ten years ago, when Augusts had their classic shape and stillness, French governments were in the habit of using the torpor to slip in a few extra centimes on the price of bread, or an executive order that would tighten this or that tax loophole. Nobody paid much attention, but newspapers occasionally published little scorecards about this time listing what had gone on while the country was stretched out flat, little bits or cotton over its eyes, at the beach. "To be noticed when returning," the headline went.

Somebody returning to Paris after rather more than a month's absence catches other things.

The city stays beautiful, and under a sky now blue enough for a Greek islands travel poster, it almost chortles. There are attempts at progress. FM radio, three or four stolid government-run stations until a year or two ago, is partly decontrolled with tens of stations, some just disco whack and sizzle, but others reflecting a pretty rich range of tastes and opinion.

Most of the old street urinals are gone, replaced by new modern devices, round and a bit kidney shaped, that promise warmth, privacy and hygiene to women as well as men for a franc. The city continues to call them *vespasiennes*, after the Roman Emperor Vespasian, who fought wars in Batavia, Gaul and Judea, and replied to reproaches about establishing a tax on urinals in Rome with the remark that money has no odor.

But there are other sights, not a part of past *rentrées*. These days, drivers coming off the main highways to enter the city deal with teams of boys who rush up to the cars with rags to clean the windshields. At the Porte Maillot the other morning, the kids were no older than 12. For people who do not much like Mr. Mitterrand or the Socialists, this is their fault, part of what they call the "Third-Worldization" of the city. "Paris is becoming Naples," a café waiter said.

It is a fact, too, that the Champs-Elysées has changed. Never faultlessly elegant, it can now be plain rough. It is McDonald's and Burger King, and probably four times as many French fast-food storefronts, quick croissants, or counters calling themselves the Beirut or the Lebanon. The piles of plastic cups and burger boxes build up on the sidewalks faster than they can be swept away.

There are bag ladies now, not quaint, jolly clochards, but sad, homeless people. And on Friday night a beggar knelt, a rag under his knees and an empty paper coffee cup in his hand, in front of the Guerlain perfume shop.

A month from now, at the end of the *rentrée*, when most of the tourists and the day-trippers from the suburbs are gone, when the weather turns rainy and cold, the Champs-Elysées will probably look more like its old self. It will also be the time when the government's wage and price freeze ends, when the unions start asking for more money and threatening strikes, and when the suspended judgments of the *rentrée* seem as far away as summer.

Moscow Assails Plan By Reagan for Mideast

By Dusko Doder
Washington Post Service

MOSCOW — The Soviet Union bitterly denounced U.S. President Ronald Reagan's Middle East initiative Monday and asserted that "a true settlement" in the region would be possible only after Israel abandoned all occupied territories and the Palestinians gained the right to establish their own independent state.

The authoritative rejoinder to the speech Mr. Reagan made Wednesday came on the eve of an Arab summit meeting in Morocco and clearly suggested an effort at persuading Arab leaders to reject the U.S. initiative.

Western diplomatic observers were surprised by the vitriolic tone of the long, detailed editorial in the Communist Party newspaper Pravda. It was also carried in full by Tass.

The observers suggested that the Russians may be concerned by the relatively guarded welcome that the Reagan plan received in some Arab countries and that they may be aiming to strengthen the position of rejectionist leaders at the Arab summit, which began Monday in Fez.

The editorial also appeared to suggest Soviet frustrations over the inability to influence events in the Middle East following the defeat of the Syrians and Palestinians in Lebanon. The two are Moscow's key allies in the region.

In attacking Washington as a "self-appointed mediator" that is trying to "arrogate to itself the right to determine" the political map of the Middle East, Pravda argued that the recent bloodshed in Lebanon was an act of "American-Israeli aggression."

'Stage-Managed'

Having driven the Palestine Liberation Organization out of Lebanon, the editorial said, the Americans have now contrived a feud *with Israel in an attempt to win* the trust of the Arabs.

"The stage-managed 'differences' between the United States and Israel after Tel Aviv's rejection of the Reagan initiative are aimed only at distracting the world and Arab public from the continuing American-Israeli collusion," it said.

Pravda rejected as unacceptable Mr. Reagan's plan for self-government for Palestinians in the West Bank and Gaza strip in some form of association with Jordan.

"As a matter of fact," the editorial said, "Washington's so-called new proposals preprogram a further worsening of relations between various peoples and new bloody conflicts. They are aimed at consolidating American-Israeli rule."

The Soviet Uunion, it said, "believes that a true Middle East settlement is possible only on the basis of withdrawal of the Israeli aggressors from all the occupied territories, with due regard for the vital interests of the Palestinian people [and] recognition of their right to self-determination up to the creation of their sovereign, independent state."

The editorial went on at length to demonstrate what it called collusion between the Reagan administration and "Israeli butchers and murderers" whose actions in Lebanon were compared to those of the Nazis during World War II.

'Ultimate Goal'

Calling Israel a "stooge" of the United States, Pravda said that Mr. Reagan was attempting to retreat from earlier U.S. suggestions about the possibility of transforming Palestinian autonomy into some form of self-determination.

Instead, the editorial continued, the question of autonomy is sought to be portrayed as "the ultimate goal" and Jordan is invited to participate in creating "administrative autonomy in the Israeli-occupied lands."

The objective of Washington, the editorial said, is to "find ways for leaving the Palestinians eternally under wardship, homeless, to doom them to eternal wandering."

In advancing his proposals, Pravda said, Mr. Reagan saw a way to revive the Camp David process, "which remains the foundation of the American policy."

Israel's outright rejection of the proposals, the editorial said, was a prearranged move that suited U.S. interests — "a crude game of the aggressor and its assistant" — and would allow Mr. Reagan to gain some credibility in the Arab world.

Pravda added: "One cannot imagine a just and lasting peace when aggressive objectives rather than peaceful ideas of cooperation" are the basis of Mr. Reagan's proposals.

Gemayel Ties to Israel Seen as Key Question

(Continued from Page 1)

Christians because his forces have eradicated the opposition. But if he is to lead the nation successfully, he must earn the respect of the divided Moslem groups — a difficult *task but* not *an impossible* one. He cannot, however, do that by cozying up to Isreal.

Israel's presence in Lebanon does not have a temporary appearance. The national airline, El Al, has opened an office in Sidon, and Israel wants exclusive use of one of the two runways at Beirut's international airport. In southern Lebanon, signs in Hebrew point the way to Beirut. The area from three miles south of Beirut to the southern border is under Israeli control.

Isreal has said that its forces will not leave until Syria's 30,000 troops pull out of northern and eastern Lebanon, and it has threatened to take military action if they stay. Syria has said it will not go until the Israelis leave. The United States is trying to negotiate a simultaneous withdrawal, something that U.S. Defense Secretary Caspar W. Weinberger said last week appeared agreeable to both sides.

The Syrians' Arab League mandate to be in Lebanon has expired, and Lebanon will ask the Arab summit in Fez, Morocco, to revoke it officially. But Damascus, which considers Lebanon's Bekaa Valley vital to its strategic interests, is unlikely to leave without negotiations. The issues it wants to talk about probably include Israel's annexation last December of the Golan Heights.

Observers in Beirut say Israel would be mistaken to take Mr. Gemayel's friendship for granted. Mr. Gemayel, who says his top priorities are national reconciliation and the removal of all foreign forces, is believed to want a cordial relationship with Israel, but one that falls far short of the intimacy Mr. Begin would like.

Since the 1948 Middle East war, Lebanon has had a UN armistice agreement with Israel, defining mutual borders and relations. Israel considered the agreement void because of Palestinian attacks on its northern region. Many observers believe the resurrection of the agreement is a more likely immediate step than the signing of a Lebanese-Israeli peace treaty.

Moslem Leaders Show Readiness to Talk to Gemayel

New York Times Service

BEIRUT — A group of influential Lebanese Moslem leaders indicated for the first time Monday that they were willing to open dialogue with President-elect Bashir Gemayel, whose election they opposed.

The group, calling itself the Moslem Conference, issued a list of principles and demands after a three-hour meeting at the home of *former Prime Minister Saeb* Salam. About 25 of the nation's Moslem leaders attended and approved the statement, which includes demands that would be difficult for Mr. Gemayel to endorse.

Mr. Salam, in an interview at his home in West Beirut, said the conference's action reflected its "positive initial attitude." "Anything that will serve the interest of Lebanon, we will do," he said.

He declined to discuss his earlier opposition to the election of Mr. Gemayel, who is to take office Sept. 24. Many Moslem leaders felt Mr. Gemayal, a Maronite Christian, was elected with the support and pressure of Israel, whose army still encircles West Beirut.

Mr. Salam's prestige was expected to add weight to the Moslem group's apparent willingness to open talks with Mr. Gemayel. Mr. Salam, 77, was the principal interlocutor between the Palestine Liberation Organization and Philip C. Habib, the special U.S. envoy, who arranged *the evacuation of* the PLO from West Beirut.

South African Bus Crashes

The Associated Press

JOHANNESBURG — A bus carrying European and African tourists rolled over and slammed into an embankment Sunday, killing one person and injuring 32. The accident occurred outside Port Elizabeth, at the southern tip of the continent.

The Associated Press

One of two summer cottages destroyed by a missile accidentally fired from a Danish ship.

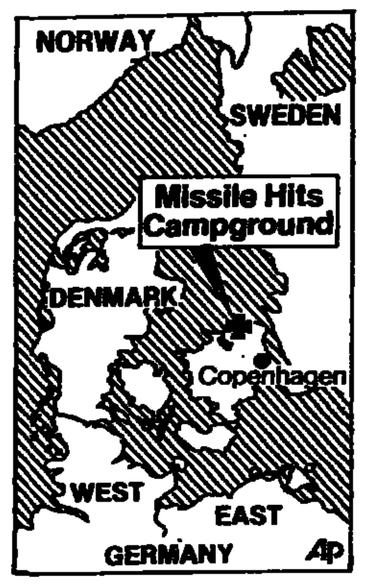
Danish Frigate Accidentally Fires At Resort, Destroying 2 Cottages

The Associated Press

LUMSAAS, Denmark — A Danish Navy frigate testing its weapons before a North Atlantic Treaty Organization exercise accidentally fired a live surface-to-surface Harpoon missile into a beach resort Monday, destroying two summer cottages, officials said. The cottages, about 45 miles (70 kilometers) northwest of Copenhagen, were believed to be unoccupied.

Police said no injuries were reported. The Defense Ministry said the accident may have been caused by a technical fault. The missile struck one cottage and the resulting fire burned the other to the ground, police said. It also caused other damage over a wide area on the northwest tip of Denmark's main island, Sjaelland.

"Normally the firing procedure is taken down to the push of the button," said Major Brons Hansen, a spokesman for the Defense Ministry. "Today, for some strange reason, the missile went off." He said investigators were looking for parts of the missile so as to try to determine the cause of the accident. Military sources said the Harpoon carries more than 300 pounds (135 kilograms) of explosives. Major Hansen said the payload is classified but "is sufficient to destroy a big warship."



Arab Rulers, Arafat Open Summit; Reagan Plan Said to Have Support

By Michael Goldsmith
The Associated Press

FEZ, Morocco — Arab heads of state met Monday to discuss a joint peace initiative, and an Arab news agency said most of them are tentatively backing President Ronald Reagan's recent Middle East proposals.

The Gulf News Agency, based in Bahrain, quoting sources at the three-day Arab League summit in Fez, said the leaders have some minor reservations about the proposals, but it said they are expected to form a delegation "to undertake consultations in the United States and Europe about the American plan and about pushing the case forward."

Official Moroccan sources said *the Arab nations are especially* concerned about Israel's decision Sunday to approve new settlements in the occupied West Bank and Gaza Strip — despite Mr. Reagan's call for a freeze on new settlements.

The officials said Mr. Reagan's ability to persuade the Israeli leaders to abandon that decision would test whether he could deliver on the rest of his plan, which has been rejected outright by Israel's cabinet.

Of the Arab nations, only Egypt has made an official comment on Mr. Reagan's proposal for a Palestinian government on the West Bank and Gaza Strip in association with Jordan, saying it had "positive points." But Egypt has been ostracized by other Arabs for their participation in the Camp David peace treaties with Israel, and has been suspended from the Arab League.

The other Arab nations are not expected to issue their reactions until after the summit, during which the Palestine Liberation Organization is expected to make its position known.

The summit is a resumption of a meeting in November that was halted because of a boycott by President Hafez al-Assad of Syria.

The sources said King Hassan II conferred individually Sunday and Monday with Mr. Assad, King Fahd of Saudi Arabia, King Hussein of Jordan, President Gaafar Nimeiri of Sudan and Yasser Arafat, leader of the PLO.

Mr. Arafat flew from Tunisia Monday and was embraced at the airport by King Hassan and other Arab leaders.

Iraq had said it would send a ministerial delegation, but President Saddam Hussein made an unexpected appearance Monday night, the Gulf News Agency reported. President Hussein is likely to press for aid from the Arab League for Iraq's war with Iran.

So far, the Reagan proposals have met with favorable comments in the media of the moderate Arab states and have been attacked in other nations' press.

Al-Riyadh, the authoritative Saudi newspaper, reported that Mr. Reagan's proposal was officially placed on the summit agenda Monday, along with two other peace proposals.

One is a modified version of a plan by King Fahd, implying Arab recognition for Israel in return for Israeli withdrawal from all occupied territories. The original proposal at the November meeting prompted Mr. Assad's boycott.

The other, by President Habib Bourguiba of Tunisia, calls for dividing Israel into three unconnected enclaves.

The Saudi newspaper said the summit conference also will discuss the future of Lebanon after the scattering of PLO guerrillas from West Beirut.

Among the subjects to be discussed, it said, were the Arab League mandate under which Syria sent troops to Lebanon after the 1975-76 civil war there and reconstruction aid to Lebanon.

British Workers Open Conference With Attack on Thatcher Policies

The Associated Press

BRIGHTON, England — The 114th annual conference of Britain's labor federation, the Trades Union Congress, opened Monday with a denunciation of Prime Minister Margaret Thatcher's economic policies.

The labor organization, which has 11 million members and supports the opposition Labor Party, blames Mrs. Thatcher and her governing Conservatives for industrial stagnation and record unemployment.

According to the conference president, Alan Sapper, the official jobless figure of nearly 3.3 million, 13.8 percent of the work force, is a higher proportion than almost every other industrial country.

Mr. Sapper, leader of the film and television technicians' union, said in a speech that Mrs. Thatcher's policy of a market economy and free competition was "immoral, takes away fundamental human freedom and it doesn't work."

He said it was immoral because it was based on the strong benefiting at the expense of the weak, that it took away the right to work, "which is just as important as the right to free speech," and he said it did not work because "manufacturing industry is slowly dying."

He said that unemployment actually exceeded 4 million because many people did not bother to register as unemployed when they lost their jobs.

Mr. Sapper said the government had reduced unemployment benefits and that bankruptcies and business liquidations were at a record level.

He said Britain should withdraw from the European Community because of a deficit of "billions of pounds in our manufacturing trades" with its nine partners in the economic alliance.

The unions have lost nearly 1 million members in two years, and they blame this on rising unemployment.

Mr. Sapper accused the Conservatives of trying to "emasculate" the unions to thwart an effective fight against the government's monetarist policies.

The conference is meeting under the shadow of a four-month pay dispute in the state-run National Health Service. The Trades Union Congress is calling on its 108 member unions to strike for all or part of the day Sept. 22 in support of the hospital workers.

Union leaders face fines and imprisonment if the strike is held. Legislation forbids sympathy strikes against companies not directly involved in a dispute.

The health workers are demanding a 12-percent pay increase and have rejected a government offer of 6 percent on weekly wages of £59 (about $102) for blue-collar employees and 7.5 percent on nurses' pay of £85.

Union leaders such as Moss Evans of the Transport and General Workers, David Basnett of the General and Municipal Workers and Arthur Scargill of the Mineworkers said they were ready to go *to prison rather than pay fines* or damages for defying the law.

Finnish Leader in Hungary

The Associated Press

BUDAPEST — President Mauno Koivisto of Finland arrived Monday in Budapest for a "working friendship visit" with Janos Kadar, *the Communist Party chief*, and President Pal Losonczi.

Letter Urges Soviet to Free Weapons Foe

U.S. Activists Protest 'Harassment' of Group

By Judith Miller
New York Times Service

WASHINGTON — Twenty American leaders of the movement to freeze Soviet and U.S. nuclear arsenals have protested what they described as Soviet efforts to "harass and persecute" their Soviet counterparts.

In a letter to Leonid I. Brezhnev, the Soviet president, the Americans asked for the release from a psychiatric institution of Sergei Batovrin, a leader of the Soviet group.

"The double standard by which the Soviet government abides — applauding widespread public debate in the West while crushing the most benign form of free expression at home — only strengthens the complex of forces that impel the nuclear arms race," the letter said.

Opponents of the nuclear arms race have been more critical of the U.S. program to expand and improve nuclear forces than of Soviet behavior.

The letter was signed by 20 advocates of a halt to the nuclear arms race, including three scientists who worked on the nuclear weapons program at Los Alamos Laboratory — Hans A. Bethe, winner of the Nobel Prize for physics in 1967, George B. Kistiakowsky, chairman of the Council for a Livable World, and Victor F. Weisskopf, who is one of the few American members of the Soviet Union's Academy of Sciences.

Kurt Gottfried, a physics professor at Cornell University, and Mr. Bethe drafted and circulated the letter a couple of weeks ago.

Mr. Gottfried, who has been active in supporting Soviet scientists who are political dissidents, said he was "surprised and very pleased by the willingness of so many in the forefront of the American movement to halt the arms race" to sign the letter.

"We hope that our effort will make the Soviet leaders see that it doesn't make sense to take a hardline with their peace movement," he said.

The focus of the arms control advocates' protest is the Soviet crackdown on a fledgling independent disarmament group.

Members said that they would press for direct contacts between the U.S. and Soviet people and open discussion on both sides of disarmament proposals and other questions touching on peace and war.

On Aug. 6, the police arrested Mr. Batovrin, 25, an artist who founded the group, and put him in a psychiatric hospital. A group of American peace activists had been scheduled to visit him that day.

A week later, the Soviet police *sealed off the apartment* where other members of the group were planning to meet, saying that the movement was provocative and illegal. The crackdown occurred on the day that the Soviet press carried glowing accounts of the huge protest against nuclear war in New York.

Since his incarceration, Mr. Batovrin has been administered antidepressant drugs against his will and threatened with electric shock treatments if he did not take medication, according to Natasha Batovrin, his wife.

■ 'Four-Sided Dialogue'

The New York Times reported in New York that a founder of the independent Soviet pro-disarmament group who recently emigrated said that the objective of the movement was to start a "four-sided dialogue" among the governments and people of the United States and the Soviet Union.

Mikhail Ostrovsky, 26, a dental technician from Moscow, said the *organizers wanted an independent* citizens' movement because the Soviet peace organizations already in existence "reflect only the government's point of view."

Mr. Ostrovsky said he and his colleagues were not dissidents since their aims reflected the Soviet government's stated desire for peace. He said the group informed the local authorities as well as Western correspondents of their intentions. They appealed to the Moscow city council to make the capital a nuclear-free zone, and appealed to the U.S. and Soviet governments to stop testing nuclear weapons.

Mr. Ostrovsky received an exit visa in July that had been denied him for two years. He left the Soviet Union July 9 and now lives in Brooklyn with his wife and two children.

The 14 other organizers of the movement, called the Group for the Establishment of Mutual Trust Between the U.S.A. and the U.S.S.R., have been harassed by the Soviet *authorities since* their press conference.

WORLD BRIEFS

Rightist Tries to Form Danish Cabinet

COPENHAGEN — Poul Schluter, leader of the Danish Conservative Party, began the difficult search for a new majority coalition government Monday, but parliamentarians said his chances of success were minimal.

Queen Margrethe II gave Mr. Schluter a mandate for talks with the eight other parties in the Folketing after Social Democratic Prime Minister Anker Jorgensen resigned over failure to win support for a controversial economic crisis package drawn up by his minority government.

The package contained plans for income tax reforms, public spending cuts, and new taxes on life insurance companies and pension funds. Mr. Jorgensen said during the weekend that his party would go into opposition rather than join a rightist coalition. The Social Democratic Party, with 59 of 179 seats, is the largest in the Folketing, followed by the Conservatives with 26 and the Liberals with 21.

Kissinger Warns S. Africa on Racism

PRETORIA — Henry A. Kissinger warned South Africa Monday against believing the West will ignore its race discrimination because of the nation's mineral wealth and strategic importance.

The former U.S. secretary of state urged "a heroic effort ... to devise new structures and concepts compatible with the fundamental values of other Western societies." In a keynote address to the South African Institute of International Affairs, Mr. Kissinger approved of measures removing "petty apartheid" laws and proposals to give the Asian and mixed-race minorities a political voice. "But your friends would render you no service if they implied that these were anything but the first steps on a long journey," Mr. Kissinger said.

He added that he did not favor Western economic sanctions against South Africa. He said the current U.S. policy of "constructive engagement" encouraged evolutionary change rather than violence.

Pope Discusses Spanish Trip Plans

CASTELGANDOLFO, Italy — Pope John Paul II met on Monday with three leading Spanish church officials at his summer residence south of Rome to discuss a possible postponement of his October visit to Spain to avoid interfering with Spanish elections.

The three officials carried a report from Spanish bishops explaining the controversy over the pope's visit, the spokesmen said. The 31 bishops met in Madrid on Saturday, and according to church sources in Spain, a majority favored postponement of the pope's visit until after the Oct. 28 election.

The pope is scheduled to visit Spain Oct. 14 to 22. But both Spanish church officials and politicians have expressed fears that the pontiff's trip during the campaign could be exploited for political reasons. The Vatican did not say when a decision on the trip would be made.

India Trying to Aid Flood Victims

NEW DELHI — Officials said Monday that rescuers have been unable to reach hundreds of villagers in southeastern India who have been without food for four days after fleeing floods that have killed 417 people and left a million homeless.

Two weeks of monsoon rain have flooded vast areas of four Indian states, *hampering efforts to provide emergency aid to victims.* Food in government warehouses was reported to be running out.

Hardest hit appeared to be Orissa state, along the Bay of Bengal. The authorities say that 136 people have been killed. Ten million people there have been affected, they said. Other states affected are Uttar Pradesh, Bihar and Madhya Pradesh.

Actresses Injured in U.S. Car Crash

SAN FRANCISCO — Mary Martin and Janet Gaynor, stage and screen actresses, were seriously injured Sunday night when a van smashed into their taxi.

Ben Washer, Miss Martin's press secretary and companion, was killed in the accident, and Paul Gregory, Miss Gaynor's husband, was injured. The group was on its way to a dinner when a van went through a red light and hit the cab. The driver of the van was arrested on charges of manslaughter and drunken driving.

Miss Gaynor, 77, underwent five hours of surgery for a severe pelvic fracture, internal injuries and 11 broken ribs. Miss Martin, 68, was in serious but stable condition. Mr. Gregory, 66, who suffered rib fractures, was in fair condition. The cab driver was not seriously hurt.

Compiled From Agency Dispatches

U.S. Paper Says Vietnam to Allow Children to Leave

United Press International

LOS ANGELES — Vietnam's foreign minister has agreed to permit Vietnamese children fathered by Americans to emigrate to the United States, the Los Angeles Herald Examiner reported Sunday.

The newspaper said that the minister, Nguyen Co Thach, made the statement in an interview Aug. 23 with its publisher, Francis Dale, in Hanoi.

According to U.S. estimates, there are several thousand Vietnamese children fathered by Americans. Past efforts by relief agencies to facilitate their adoption have met with frustration.

But Mr. Thach indicated that his government was committed to making the Orderly Departure Emigration Program work. The program was established by Washington and Hanoi to handle Vietnamese emigration and discourage such hazardous escapes as those undertaken by the so-called boat people.

Asked what the United States could do, Mr. Thach said "you must not encourage refugees from Vietnam and you must accept the people" in the program "without discrimination."

Dominicans Act to Bar Exile Invasion of Haiti

Reuters

SANTO DOMINGO, Dominican Republic — The government said Monday that it will increase patrols along its coasts and its border with Haiti to guard against attempts by Haitian exiles to invade Haiti from Dominican soil.

The announcement came after the arrest Sunday of 55 Haitian exiles believed by the police to have been involved in a plot to overthrow the government of their homeland.

Ideas Sought On Sanctions

(Continued from Page 1)

France, a subsidiary of Dresser Industries of Dallas, have already been penalized for delivering three compressor stations for the pipeline.

■ Weinberger in Britain

The U.S. defense secretary, Caspar W. Weinberger, arrived in London Monday for talks with the British government on the dispute on the Soviet pipeline, United Press International reported.

Mr. Weinberger arrived at Heathrow airport after a three-nation Middle East visit that was dominated by talks on Mr. Reagan's recent peace initiative. Israel rejected the proposal; Egypt gave guarded approval. Mr. Weinberger also visited Lebanon.

Mr. Weinberger will remain in London until Thursday for talks with Defense Secretary John Nott and *Foreign Secretary Francis* Pym.

■ Japanese-Soviet Discussions

Steel industry sources in Tokyo say Japanese manufacturers of large-bore steel pipes opened discussions Monday with Soviet traders on increasing supplies to the Soviet Union beginning in April, Reuters reported.

The sources said they could not rule out the possibility that some large-bore pipes might be used for the pipeline from Siberia to Western Europe.

Japanese companies have contracts to provide the Soviet Union with pipe in the financial year ending in March, and observers at the talks said they hoped to supply more in the next 12 months.

Spanish Poison Toll Is 331

Reuters

MADRID — Adulterated cooking oil killed four more Spaniards last month, bringing the death toll to 331 since it first appeared in the spring of last year, a Health Ministry statement said Monday.

A Reagan Supporter Pays the Price in Illinois

Republican Leader's House Votes Are Tough to Explain to the Voters

By David S. Broder
Washington Post Service

MORTON, Illinois — When the 3-year-old Redbud Tree restaurant in this central Illinois city stopped serving meals in July and converted to a catering business, laying off half of its 50 employees, it was another casualty of the recession that has pushed unemployment in this part of the state to 16 percent.

But this casualty was a little different, because a part owner of the Redbud is the minority leader of the U.S. House of Representatives, Robert H. Michel, who is fighting a duel battle for solvency and political survival in this tough economic year.

The chances are that he will make it back for his 14th term in the House against the challenge of his heavily out-financed Democratic opponent, G. Douglas Stephens, a Peoria attorney. But this has been an unhappy year for Mr. Michel, who acknowledges that "it's a lot less pleasant" campaigning than in his previous races.

New District

He has to justify his support for President Ronald Reagan's proposals for higher taxes on business and a veto of supplemental appropriations that will cost jobs and a bridge project in his district, but he stoutly repeats his conviction that Reaganomics is putting the country on the right track.

The House redistricting plan dismembered his old territory, and Mr. Michel says he has 60 percent new territory and 45 percent new constituents, most of whom "don't know me from a bale of hay."

The year began with the Reagan administration's decision to slap an embargo on exports of American technology to the Soviet Union. This move cut off the Caterpillar Tractor Co.'s sale of $85 million worth of pipe-laying equipment and shifted the jobs — and future contracts — to Komatsu of Japan, the leading rival to this area's biggest employer.

Though privately critical of the "bureaucratic delays" that made the Caterpillar deal vulnerable to Mr. Reagan's sanctions, Mr. Michel swallowed hard and endorsed the decision.

The sanctions also brought Mr. Michel an opponent. Last winter, Mr. Stephens, the attorney for the United Auto Workers union local at Caterpillar, turned away pressure to run, saying it would take too much time away from his law practice and his new bride. But after letting the filing deadline pass with no Democrat challenging Mr. Michel, Mr. Stephens changed his mind and ran a write-in campaign to win the nomination.

His hopes were brightened considerably by a June poll of 403 voters, taken for the National Committee for an Effective Congress. It found that even though Mr. Stephens had little personal recognition, he trailed Mr. Michel by only nine points — 42 to 33 percent — when each was identified to the voters as the candidate of his party for the House.

It also found that 71 percent of the voters — and 54 percent of the Republicans — said the economy was worse than in 1980; that Mr. Michel and Mr. Reagan both had slightly negative job ratings, and that the Congress of which Mr. Michel is a leader had an 85 percent negative rating.

Finally, it confirmed Mr. Michel's "bale of hay" suspicion. Although 74 percent of the Peoria-area voters could name him as their congressman, that percentage fell to 8 percent in some of the new counties and was just 49 percent overall.

Difference in Funds

Mr. Michel took his own poll in July, and although he has not released the results, the message was similar enough to spur a burst of activity. His administrative assistant, John Schad, went off the federal payroll to run the campaign. And he ordered up television commercials showing him helping farmers and elderly people with their problems.

The media blitz — months earlier than Mr. Michel had ever started before — is being paid for by part of the $225,672 war chest he had assembled by June 30, including a $1,000 gift from the Caterpillar political action committee. Mr. Stephens, at the same point, reported only $31,255 in receipts.

On the other hand, Mr. Stephens is the beneficiary of the unusual attention that Mr. Michel draws to the district. There was a CBS News piece about the race on television recently, and Representative Morris K. Udall, an Arizona Democrat who is a leader of the House, came in to campaign for him the next day.

Mr. Stephens' basic contention is that Mr. Michel has been drawn into the Reagan administration's power game and has lost his voice as a spokesman for the district. "When the policies of this administration hurt this district," Mr. Stephens said, "you don't hear Bob Michel's voice raised in protest. He may have power, but it's not being used for our good."

Mr. Michel is not trying to shed his Reagan ties. He says he believes that the administration is "basically on the right track," but he concedes that "our smokestack industries will probably be the last ones to feel the turnaround."

UPI

Robert H. Michel

Despite the special problems he faces this year, Mr. Michel remains a clear favorite. The new territory is Republican by tradition, and he has far more money to buy name recognition in the five radio-TV markets than Mr. Stephens does.

Although the poll for Mr. Stephens showed that most voters think the economy has worsened, there was also some good news for Mr. Michel. Seventy percent of those polled think "Congress should support the president's economic recovery plan by giving it more time to work."

34 Economists Attack Reagan Policy, Urge Industrial 'Consensus'

By John M. Berry
Washington Post Service

WASHINGTON — A group of 34 economists issued a sharp critique of Reagan administration economic policies Monday and proposed alternatives that include the adoption of national wage-price and industrial policies.

The Reagan program "is based on unrealistic assumptions, lacking credible support in both economic theory and the experience of industrial countries," the group declared in a lengthy statement.

The program is both "inefficient" and "extremely regressive in its impact on our society, redistributing wealth and power from the middle class and the poor to the rich, and shifting more of the tax burden away from business and onto low- and middle-income consumers," the group argued in the statement. It was published jointly by the Full Employment Action Council, a coalition of religious civil rights and union groups, and the National Policy Exchange, an economic research and educational organization.

Carter Labor Secretary

Prof. Ray Marshall of the University of Texas, who was Labor secretary in the Carter administration, heads the latter group.

Among the more prominent economists endorsing the statement were Robert Eisner of Northwestern University, Lester Thurow of the Massachusetts Institute of Technology, Robert Lekachman of the City University of New York, Washington consultant Robert Nathan, Richard Musgrave of Harvard University, George Perry of the Brookings Institution and Sar Levitan of George Washington University.

The group called for "developing a consensus among industry, labor and government on the appropriate interplay between prices, incomes and economic policy." It said that for such a policy to work, "all the key players must take part directly and all forms of income must be on the table — not just wages or prices, but rents, dividends and interest as well."

Some of those who endorsed the general thrust of the statement do not support all of its recommendations. Mr. Eisner, for example, said he does not agree with the section on industrial policy, which calls for the creation of a national economic policy board and an industrial development bank to channel investment funds.

The national policy board, proposed by Mr. Marshall's group, would include representatives of labor, business and government and independent experts. The board would provide a framework for "working out the incomes policy needed in the fight against inflation ... [and] be the vehicle for framing a coherent industrial policy," the statement said.

The statement suggested that the board could use the proposed industrial development bank to channel investment, with funding "largely by private resources with special consideration given to using pooled pension fund money."

"Finally," the statement added, "it must be recognized that the greatest single determinant of business investment in new productive plant and equipment is not special tax gimmicks but rather steady growth of demand and avoidance of recessions. Moving our economy toward full employment is the single most important contribution we can make toward strengthening industry and improving productivity growth."

The group faulted the Reagan administration for relying on general economic policies to restrain inflation rather than focusing on specific inflation problems in the energy, food, housing and health care areas.

Union Chiefs Criticize U.S. Labor Policy

Seek New Protection From Japanese Imports

By Pete Earley
Washington Post Service

WASHINGTON — Two of the nation's leading labor leaders have criticized President Ronald Reagan's economic policies and again demanded changes in trade policy to prevent such countries as Japan from reaping the benefits of the U.S. marketplace without reciprocating.

"Reaganomics is a blind cave," said Lane Kirkland, president of the American Federation of Labor and Congress of Industrial Organizations. "There is no light at the end of the tunnel of recession, unemployment and national decline into which it has led us."

Unemployment, which is at 9.8 percent nationwide with nearly 11 million out of work, is "one of the most dangerous forces that can be let loose in a world," Mr. Kirkland said Sunday. It is a "disease that withers the human potential."

Douglas A. Fraser, head of the 1.2 million member United Auto Workers union, predicted that the nation's auto industry would not recover soon unless there was a "complete change of course in the economic policy of this administration." Such a change is unlikely, he said.

Both leaders predicted a gloomy future for workers, particularly those in the auto industry.

In a television appearance Sunday, Mr. Fraser reserved his harshest criticism for the Japanese.

Appearing on NBC's "Meet the Press," Mr. Fraser said: "Our country behaves as fools in our trade relationship with Japan. All we do is espouse the slogan of free trade without considering whether or not it's fair trade, and the Japanese keep out our citrus fruits, keep out our beef, keep out our tobacco."

Mr. Fraser said auto "content" legislation pending in Congress could help the auto workers. It would require foreign automakers to manufacture at least 25 percent of their car parts in the United States if sales in the United States were 100,000 units or more a year and 90 percent if sales reached 500,000 a year.

Mr. Fraser estimated that foreign automakers would sell 2 million cars in the United States this year. The Reagan administration opposes the bill on the ground that it would lead to retaliatory trade barriers.

"We don't want to keep out the Japanese cars," Mr. Fraser said. "We want the Japanese to locate here, to build here, to invest here and create jobs here."

On the CBS program "Face the Nation," Mr. Kirkland, referring to the Department of Labor, said: "I think the department has been effectively dismantled. I presume it was done on the orders of the White House as a matter of administration policy. Its historic role as a defender of the welfare of wage earners has been perverted."

Bishops Call For Democracy in U.S. Industry

By Charles Austin
New York Times Service

NEW YORK — Thirty Episcopal bishops have issued a Labor Day pastoral letter calling for localized, cooperative control of the nation's industries and criticizing what they call "the growing wave of anti-unionism" in the nation.

The bishops also questioned whether "work defined primarily as 'competition' can ever really build local security and stability."

The pastoral letter, released Monday at the general convention of the Episcopal Church in New Orleans, was prepared by the Urban Bishops Coalition, an organization of Episcopal bishops from metropolitan areas. The coalition is headed by Bishop John T. Walker and Bishop John H. Burt.

The statement from the urban bishops came on the second day of the triennial convention of the Episcopal Church, a denomination with 2.75 million members.

Dignity of Workers

The declaration, which said that "cooperative ownership" might help restore dignity to the worker, was one of the more radical documents ever issued by the bishops' group, which is not a formal church agency. The letter was made public the day before Vice President George Bush was scheduled to address the meeting of bishops, priests, and laity at the Rivergate convention center in New Orleans.

Reaffirming the bishops' support for the right of workers to unionize, the pastoral letter said, "we do not see ways to achieve long-range economic recovery for people in America and elsewhere in the world except through a process of democratic control of work in local communities."

"We suggest," the bishops said, "that the disarray now spreading through economic arrangements in America today may have its roots in the long-standing practices of workplace inequality and the lack of dignity through shared ownership.

"We note that where cooperatively owned enterprises have existed in this country and elsewhere in the world, productivity has been high."

"We question whether inequality structured into the workplace and jobs made vulnerable to the self-interest of absentee corporate owners will not invariably cripple family and community life," the pastoral letter stated.

"We know of no more sinister power and threat to the welfare of the human community than that flowing from corporate structures which remove control of resources and decision-making from the people most affected."

The four-page document began: "Labor Day 1982 finds working people around the world facing the most severe economic upheaval in more than a century. Not since the industrial revolution has the place and role of work undergone such revision and dislocation."

The letter called upon church members to "respond to the trauma and pain of the present tidal wave of economic dislocation." Local congregations, it said, should cooperate in programs to aid the unemployed and initiate discussions with business and industry "to design new ways for people to work."

Who Spoiled Hawaii? Everybody

Study Implicates Polynesians as Well as Europeans

By Philip J. Hilts
Washington Post Service

WASHINGTON — The belief that Hawaii was an unspoiled paradise before the Europeans colonized and despoiled it is mistaken, according to a study by two scientists.

The Polynesians, the study says, had already destroyed much land and had burned or hunted into extinction 39 species of birds, or about about half of all varieties on the islands, before the arrival of Captain James Cook in 1778.

In the Aug. 13 issue of the journal Science, Storrs L. Olson and Helen F. James of the Smithsonian Institution wrote that in a 10-year survey they found 74 kinds of fossil birds in Hawaii. But today fewer than 20 of the species can be seen.

By using carbon dating and other archaeological techniques, the two researchers found that 39 of the missing species probably became extinct between A.D. 400 to 600, the time when the Polynesians colonized the island, and 1778.

Forests Burned

Ancient hearths have yielded the charred bones of some of the extinct birds, which were apparently hunted and eaten by the early Polynesians. A number of the extinct birds were flightless geese and ibises, which would have been easy prey.

But the disappearance of birds cannot be accounted for by hunting alone, the researchers wrote. A more plausible explanation for the disappearance is the burning off of lowland forests by the islanders to set up farms.

"Journals of early Western voyagers to the islands, including those of James Cook, James King and George Vancouver, record extensive deforestation and heavy cultivation," the researchers reported.

In the 200 years of European colonization, about a dozen more species native to the islands, or one-third of those still left, have been destroyed.

One of the chief clues that the 39 extinct species existed when the Polynesians arrived, apart from individual findings at hearth sites, is the presence of a rat in the layers of fossil rock.

It is known that the rat was brought to the islands by the Polynesians accidentally when the islands were colonized. The extinct bird species have been found alongside fossils of the rats, showing they existed side by side. But by the time Captain Cook arrived and records began to be kept, the species were gone.

2d Bomb Expert Dies From Paris Explosion

Reuters

PARIS — Bernard Mauron, a police bomb disposal expert, died Sunday night from injuries he sustained while trying to disarm a bomb near the home of a U.S. Embassy official on Aug. 21, the police said. Another officer, Bernard Le Dreau, was killed in the explosion in a residential district near the Eiffel Tower.

One Is Slain, One Hurt In Shooting in Belfast

United Press International

BELFAST — One man was shot to death and another critically wounded in a gun attack in a Protestant district of West Belfast Sunday night, the police said.

Two gunmen on a motorcycle stopped a car with three men inside at a road junction just before 10 P.M. The men got out, there was a volley of shots and two of them were killed, police said.

Bonn Coalition Is Still Breathing But Even Officials Offer Last Rites

By James M. Markham
New York Times Service

BONN — With West Germany's governing coalition nearing its 13th anniversary in power, officials acknowledge that a deathbed, if not a funereal, atmosphere has enveloped the government of Chancellor Helmut Schmidt.

For almost two years, politicians, journalists and diplomats have been monitoring the state of the coalition linking Mr. Schmidt's Social Democrats and the junior Free Democrats. Predictions of the coalition's demise, however, have repeatedly been premature.

But some officials are now speaking in almost valedictory terms, looking back on what has been accomplished before contemplating moving on.

"This coalition has become decayed," said the liberal Hamburg weekly Die Zeit, a longtime Schmidt supporter. "Its domestic policies have been reduced to bookkeeping. Its foreign policy has atrophied into declarations; its domestic political basis is too narrow to expect powerful political initiatives, necessary though these may be."

Taxes and Welfare

The Frankfurter Allgemeine Zeitung, never hospitable to Mr. Schmidt, carried an editorial Saturday that, with a Gothic headline, resembled an obituary. "The Bonn government is at its end," the editorial said.

The causes of the grim mood in Bonn appear to lie in places like the souring West German economy, the unsettling unemployment figures and the insolvency of an economic giant like AEG-Telefunken.

The nominal dispute between the coalition partners turns on the bread-and-butter issues of taxes

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and welfare benefits; the Free Democrats and their small-business followers want lower taxes, and Mr. Schmidt's labor constituency is upset about "unbalanced" welfare cuts.

But the immediate point of discord in the coalition is an election for the state legislature in Hesse Sept. 26 that is being viewed as a watershed.

In Hesse, which has been a Social Democratic fiefdom since the end of World War II, the Free Democrats have announced readiness to form a state coalition with the conservative Christian Democrats, the opposition in Bonn.

Such a "new majority," many Free Democrats are suggesting, not quite subliminally, would then become a model for Bonn. In other words, the small Free Democratic Party would make a power switch, dumping their Social Democratic allies for the Christian Democrats.

As the Hesse campaign heats up, Hans-Dietrich Genscher, the foreign minister and leader of the Free Democrats, finds himself accused of political infidelity to the coalition. Politicians say the public considers fidelity and steadfastness extremely important qualities in politicians.

Last week, tensions spilled over when a cabinet meeting, usually a decorous affair, degenerated into a shouting match between Mr. Schmidt and Otto Lambsdorff, the Free Democrat economics minister, who in a newspaper interview had virtually invited the voters in Hesse to send a signal to his party to make the switch in Bonn.

Without being asked, Klaus Bolling, the chancellor's spokesman, related the details of the cabinet brouhaha at a news conference, suggesting that Mr. Schmidt believed that a public dressing-down of Mr. Lambsdorff might be politically useful. Opinion polls show that the chancellor is still popular in West Germany, much more so than his own party.

Other polls show the Christian Democrats with close to 50-percent support in Hesse; the Social Democrats in the 35-percent range; the Greens, or ecological protest movement, with about 10 percent, and the Free Democrats perilously close to the 5-percent minimum cutoff.

Some argue that if the Free Democrats fall below 5 percent of the Hesse vote, thereby forfeiting representation in Wiesbaden, Mr. Genscher will have to think twice about making a switch.

An aide to Mr. Schmidt speculated, however, that such a show in the voting could produce the opposite result, "panicking" Mr. Genscher's party into a switch.

■ Confidence Bid Denied

A government spokesman denied Monday that Mr. Schmidt would attempt to bolster the coalition by asking parliament for a vote of confidence, according to United Press International. A spokesman, Klaus Boelling, said the chancellor "has not the slightest reason to ask for a confidence vote."

Mr. Boelling was commenting on press reports that Mr. Schmidt was considering asking for a vote of confidence to force the Free Democrats to say openly whether they planned to switch their support to the Christian Democrats.

Hanoi Said to Reinforce Cambodia Border Units

Reuters

BANGKOK — Vietnam has sent about 1,000 more troops to western Cambodia to combat anti-Vietnamese guerrillas fighting along the Thai border, ousted Khmer Rouge insurgents said Monday.

The Khmer Rouge's China-based clandestine radio, said the reinforcements were sent at the end of last month and were composed of new recruits. Vietnam denied the reinforcement charge over the weekend. About 180,000 Vietnamese troops have been in Cambodia since Vietnam's invasion.

Police make a spot check of a car and several youths at a roadblock in Palermo. The police are continuing their search for the assassins of General Carlo Alberto Dalla Chiesa and his wife.

United Press International

Head of Italy's Anti-Mafia Police Is Promised Broad Powers in Sicily

Reuters

PALERMO, Sicily — The new head of Italy's anti-Mafia police assumed his position Monday, with the promise of sweeping new powers against organized crime.

Emmanuele De Francesco, appointed prefect of Palermo and high commissioner of the fight against organized crime Sunday, flew into Punta Raisi airport and immediately went under heavy guard to meetings with security chiefs. His arrival on the Mediterranean island contrasted with that of his predecessor, General Carlo Alberto Dalla Chiesa, who had symbolically dispensed with his guards at the airport and taken a taxi to the office.

General Dalla Chiesa and his wife were murdered in Palermo Friday night. Mr. De Francesco has been promised powers — which were denied to General Dalla Chiesa — in the fight against Mafia chieftains who are held responsible for the murders.

Police have continued to raid homes throughout western Sicily, questioning more than 120 suspects in the search for the assassins, but alibi checks, chemical tests for firearms and roadblocks had yielded no concrete leads.

Judicial sources said Mr. De Francesco was expected to be given powers to investigate bank accounts and investments that prosecutors have been trying for years to link with the Mafia. General Dalla Chiesa had been studying a secret report that is believed to break new ground in tracing the network through which the Mafia "launders" profits from the heroin trade, the sources said.

Prime Minister Giovanni Spadolini told Parliament Sunday that new anti-Mafia legislation was imminent. He said it would enable the Mr. De Francesco to attack the Mafia's business interests and trace profits from drugs.

The U.S. Drug Enforcement Administration says the Mafia has made at least $600 million from the Sicily-New York heroin trade since 1976. Prosecutors believe most of the cash finds its way back to the island.

Emmanuele De Francesco, left, arrives at the prefecture building in Palermo with the city's police chief, Nino Mendolia.

United Press International

Russians Launch Satellite

United Press International

MOSCOW — The space exploration satellite Cosmos-1405 was launched Saturday, Soviet officials announced Monday.

Italian Meeting Lacks One Thing

United Press International

LUCCA, Italy — A meeting to discuss the problems of absenteeism in Italian industries was called off Monday because only six persons showed up.

"The meeting on absenteeism has been canceled because of absenteeism," said Gerrardo Bianco, a Christian Democrat.

Ruling Party in Spain Faces Split on Strategy

Reuters

MADRID — Spain's governing centrist party, weakened by months of squabbling and defections, was on the brink of a major split Monday over proposals to form a coalition with the right to stop the Socialists from winning elections in October.

Sources in the Union of the Democratic Center, said the party's president, Landelino Lavilla, was prepared to step down rather than accept a pact with the rightist Popular Alliance led by Manuel Fraga. Mr. Fraga was information minister under Franco and interior minister in the first post-Franco government.

Mr. Lavilla and his allies said they feared that such a pact would mean the effective end of a political center in Spain and the breakup of the Union of the Democratic Center, which has governed the country since 1977.

But supporters of the pact, including several high-ranking party members, argued that it was the only way to stop the opposition Socialists from winning the Oct. 28 elections.

The dispute inside the leadership of the governing party was coming to a head as the party's executive committee prepared for a meeting Tuesday in which it would have to make a decision on election strategy.

The party sources said there were profound differences of view within the party.

Pressure mounted on Mr. Lavilla to change his stance over the weekend as his party's organization secretary and a government minister spoke in favor of what was being billed as a grand coalition of center and right.

The Madrid daily ABC, an influential conservative newspaper, also voiced support for an anti-Socialist pact and argued that there was nothing to fear from a polarization of politics in Spain.

Socialists Lead in Polls

Recent opinion polls have indicated that the Socialists would comfortably win the elections to form the first leftist government in Spain since before the Civil War.

The polls suggested that the Popular Alliance would take second place, leaving the two main centrist parties in the third and fourth positions.

The potential electoral strength of the Union of the Democratic Center suffered a damaging blow in July when the party's founder and former prime minister, Adolfo Suárez, broke away to establish his own centrist party.

The Socialists are campaigning on a platform of moderation, which has led the Communists to describe themselves as the only authentic leftist party.

A new ultra-right party, Spanish Solidarity, plans to field a ticket headed by Lieutenant Colonel Antonio Tejero, the Civil Guard officer who is serving a 30-year prison sentence for leading last year's attempted coup.

But the Defense Ministry says it will block his candidacy by refusing to let him resign from the armed forces.

French, Indians Discuss Controls On Nuclear Fuel

Reuters

NEW DELHI — Indian and French officials began talks Monday on conditions governing French nuclear fuel supplies for the U.S.-built Tarapur nuclear power plant near Bombay.

Indian press reports have said that India may refuse to consider any new controls on nuclear fuel use or reprocessing other than those agreed upon with the United States in 1963.

France agreed to consider supplying uranium fuel for the Tarapur plant after the United States stopped shipments because India would not allow full international inspection of its nuclear facilities. Last week a French technical delegation postponed a visit to India pending political talks on the issue.

U.S. officials say that plutonium produced by reprocessing could be used for nuclear weapons as well as for refueling the Tarapur reactor.

Jack Tworkov, Painter Of N.Y. School, Is Dead

New York Times Service

NEW YORK — Jack Tworkov, 82, one of the most respected artists of the New York School, died Saturday in Provincetown, Mass.

Mr. Tworkov was best known for the flaming brush strokes and controlled rhythms of his Abstract Expressionist paintings. He worked by building up blocks and fields of color and then playing the blocks, brush strokes and fields against one another.

Mr. Tworkov was born in Biala, Poland. He immigrated to the United States and settled in New York in 1913. He was educated at Columbia University, the National Academy of Design and the Art Student's League.

Like others of his generation, Mr. Tworkov never accepted the idea of pure abstraction. "I'm trying to make an analogy to the figure," he said. Mr. Tworkov believed that the next generation of abstract painters would fight against tooth and nail: "Every painter has a subject whether or not there are objects in his paintings."

From the late 1940s, Mr. Tworkov exhibited with increasing frequency. He also held teaching positions, culminating in his appointment in 1963 as chairman of the art department at the Yale School of Art and Architecture, a job he held until 1969.

This summer Mr. Tworkov had an exhibition at the Solomon R. Guggenheim Museum in New York.

His work is contained in the permanent collections of the Whitney, the Cleveland Museum of Art and the Metropolitan Museum of Art and the Museum of Modern Art, both in New York.

Keith G. Sebelius

NORTON, Kan. (AP) — Keith G. Sebelius, 65, a former Republican congressman who represented the First District of Kansas from 1968 to 1980, died Sunday.

Japan, Philippines Resolve Tanker Strafing Incident

United Press International

TOKYO — Japan and the Philippines said Monday the strafing of a Japanese chemical tanker by the Philippine Air Force last January was due to a "lack of communication" and announced an agreement resolving the dispute.

The Japanese Foreign Ministry said the government had agreed to drop demands for damages against the Philippines. The air attack Jan. 15 on the 9,000-ton tanker Hegg off the southern Philippine island of Mindanao tore holes in the vessel and injured a crewman.

"It was an accidental and unfortunate incident resulting from the lack of communication between the parties concerned," a joint communiqué said.

The Philippine government had admitted that its planes had attacked the ship, but said it was suspected of carrying weapons and reinforcements for Moslem guerrillas active in the area.

The ship's Japanese owners denied the charges, and Japanese officials said an investigation of the Hegg did not turn out any evidence that it was used to carry arms. The Philippine Air Force said its planes launched the attack after the Japanese ignored orders to stop.

Kirschläger Visits Bonn

The Associated Press

BONN — Austrian President Rudolf Kirschläger arrived here Monday on a four-day visit.

Zimbabwe: For Nkomo Independence Means A New Kind of Fight

By Alan Cowell
New York Times Service

HARARE, Zimbabwe — Prime Minister Robert Mugabe of Zimbabwe let it be known recently that when elections fell due in 1985, his political party, rooted in black nationalism, would for the *first time field candidates from the* diminishing white minority.

However, Mr. Mugabe also con-

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firmed that in 1985 he planned to begin the process of transforming Zimbabwe's multiparty rule into a one-party state — a type of government he advocated in the seven years of guerrilla war that led in 1980 to independence from Britain.

Mr. Mugabe, in Zimbabwe's first elections in 1980, emerged the winner with 57 of the 100 seats in Parliament going to his party, the Zimbabwe African National Union-Patriotic Front. The white minority, under the terms of the independence agreement, was guaranteed 20 seats. And 20 seats went to the followers of Joshua Nkomo.

Loaded Dice

The question among many Zimbabweans is whether Mr. Nkomo, the nationalist patriarch, has a chance of faring better with the dice seemingly loaded against him.

Tribally, his supporters number less than one-quarter of the population. Politically, the very fact that Mr. Mugabe holds power strongly favors his staying there. And militarily the prime minister controls most of the guns and has Africa's backing as an established and legitimate leader.

Yet there is a piquancy in Mr. Nkomo's eclipse that is detected *even by some of Mr. Mugabe's followers.*

"When you think that Nkomo has devoted his whole life to the struggle," a Zimbabwean journalist and longtime Mugabe supporter said, "and when you think he suffered in detention along with Mugabe, independence has not been particularly kind to him. Maybe he deserves better and, for the national image, maybe he should have a better deal."

Neither has the campaign been without penalties for Mr. Mugabe. When he dismissed Mr. Nkomo from his cabinet in February, hundreds of former guerrillas who had fought under Mr. Nkomo's banner in the war broke away from a new, supposedly integrated national army and took to the bush.

Those former guerrillas are now called "dissidents" or "bandits," and number between 1,000 and 2,000. They have brought a lawlessness to western parts of the country, called Matabeleland, that has provided a continued challenge to Mr. Mugabe's ability to extend his writ across the land.

Many members of the Ndebele-speaking people, who support Mr. Nkomo, have reportedly been harassed by pro-Mugabe, Shona-speaking troops who have been sent to western Zimbabwe to look for six foreign tourists, including two Americans, captured by "dissidents."

Different Perspective

The view from Mr. Mugabe's perspective is different. Mr. Nkomo, long viewed by the radical wing of Mr. Mugabe's party as a sellout of the cause, has been accused by the prime minister of plotting a coup, a charge Mr. Nkomo denies.

As it is argued, Mr. Mugabe won the elections and Mr. Nkomo should accept his political demise with good grace.

But Mr. Nkomo, once the most venerated of nationalists, seems unwilling to abandon a political position that took a quarter of a century to build as Mr. Mugabe pushes the nation toward a one-party state.

During the seven-year war, Mr. Mugabe and Mr. Nkomo maintained a loose alliance called the Patriotic Front but kept their guerrilla armies separate.

Once the two forces had been fused, Mr. Mugabe dismissed Mr. *Nkomo from the cabinet, capping* a carefully timed campaign against him and his followers, who had established secret arms caches in Matabeleland. One of these was found on a farm owned by Mr. Nkomo, and his estates were confiscated.

The maps of his extensive lands *now lie in a dusty pile in a corner* of his sitting room, faded reminders of more hopeful times.

■ **Report on Missing Tourists**

Mr. Nkomo told the Bulawayo Chronicle in an interview published Monday that he will report to Parliament this week on his efforts in a 10-day tour of Matabeleland to win the release of six foreign tourists, kidnapped by gunmen July 23, The Associated Press reported.

■ ***2 Air Force Officers Held***

The chief of staff and chief of operations of the Zimbabwe Air Force have been detained by security officials, family friends of the two officers said. They said that Air Vice Marshal Hugh Slatter and Chief of Operations Phillip Pile were seized Aug. 30, Reuters reported. The family friends said they did not know why the men, who are white, were being held. There has been no government comment.

United Press International

President Ferdinand E. Marcos displayed his new book, 'The New Philippine Republic,' at a press conference in Manila Monday. He said Americans were as guilty of historical distortions in their accounts of World War II as the Japanese.

Marcos Seeks Review of Bases Pact With U.S.

New York Times Service

MANILA — President Ferdinand E. Marcos said here Monday that he would like to review U.S. military strategies for Asia and the Philippines when he and Mrs. Marcos make a state visit to Washington in mid-September.

The purpose of the review, he said, would be to reassess the usefulness of American military bases in the Philippines.

Speaking at a news conference, which was televised nationally, Mr. Marcos also said that although he had no formal agenda for the talks with President Ronald Reagan, he hoped to discuss matters of trade and development financing.

The presidential couple is scheduled to arrive in Washington Sept. 15. On Sept. 19, Mr. Marcos will address the United Nations in New York and meet with the Philippine-American Chamber of Commerce.

Mr. Marcos said he saw his state visit *as an opportunity to acquaint* himself with the latest developments in U.S. policy toward Asia. He complained he was being kept in the dark about these plans.

Defense Arrangements

He said it was necessary to review whether mutual defense arrangements, which revolve around the use of two large naval and air force bases here, were in line with current needs. If not, he said, the bases agreement might possibly be terminated.

He referred to regional arrangements and said the Association of Southeast Asian Nations envisioned a stance of neutrality that would eventually preclude foreign bases. The Philippines is one of five ASEAN members. The others are Indonesia, Malaysia, Singapore and Thailand.

By a longstanding agreement, the United States maintains in the central Philippines the Subic naval facility, which supports the Seventh Fleet, and Clark Air Force Base, which supports the 13th Air Force Tactical Wing.

In 1979, the Marcos government assured the United States of unhampered use of the two bases for the next five years. In exchange for the continuance of the bases, the Philippines was to receive $100 million in assistance yearly, half in military grants and half in economic aid.

It was disclosed Monday that there was also a secret agreement *on the question of nuclear weap*ons and nuclear safety at the bases, an issue on which Filipino nationalists have expressed great concern.

On bilateral trade, Mr. Marcos expressed dissatisfaction with the pace of negotiations going on at lower governmental levels. The Philippines is seeking concessions to enable its exports, such as sugar, wood products, garments and coconut oil, to compete with others enjoying preferences such as the Caribbean countries.

The United States is the Philippines' largest trading partner, with two-way trade valued at more than *$3.5 billion. Roughly half of for*eign investments here are American, and American banks hold a large part of the Philippine foreign debt, which is $15 billion.

Mr. Marcos said the Philippines was badly hurt by the recession and that overall export earnings were down 27 percent this year. The balance of payments deficit stands at $539 million.

Protesters Greet Japanese A-Ship

Reuters

MUTSU CITY, Japan — Demonstrators in rubber boats attempted to block the route of Japan's first nuclear-powered ship, the Mutsu, when *it returned to its* home port Monday after nearly four years, police said.

About 600 riot policemen were mobilized and 50 Maritime Safety Agency boats patrolled Ominato Bay, at the tip of the northern island of Honshu, as the 8,214-ton Mutsu entered port under conventional power. Police said one protester was arrested.

The Mutsu arrived from the southern port of Sasebo, where it had been docked since late 1978 while repairs were made to damaged shields around its nuclear reactor.

South Korean Sailors Saved

Reuters

TOKYO — Twenty-seven South Korean crewmen were rescued Monday after their ship, the 3,780-ton Hae Young, sunk in the South China Sea, Japan's maritime safety agency said.

Ethiopia Is Incapable of New Move In Eritrea, Rebel Spokesman Says

New York Times Service

NEW YORK — An Eritrean rebel leader says Ethiopian troops in the troubled province are incapable of starting a new offensive and are playing for time until they can build up their forces.

Amdemicael Kahsai, a member of the central committee of the Eritrean People's Liberation Front, said in a recent interview that, since the failure of an Ethiopian offensive against the rebels in May, "military operations for Ethiopia have been taken over by the Soviets." He said there were now about 800 Soviet advisers in Eritrea.

The rebels have been fighting for the independence of the province since the territory was annexed by Ethiopia in 1962. The Er*itrean People's Liberation Front* maintains a permanent office in New York as the Eritrean Relief Committee. In May, Mr. Kahsai said as many as 1,000 Soviet advisers were coordinating Ethiopian military strategy, a charge that Ethiopia's spokesman in Washington denied.

Mr. Kahsai said Ethiopian troops undertook a series of hit-and-run attacks on rebel positions south of Asmara, the provincial capital, from Aug. 3 to Aug. 15. The Eritrean guerrillas still held the northern mountain town of Nakfa, he said, but were fighting elsewhere in the province with "*mobile units.*"

Tesfaye Demeke, chargé d'affaires at the Ethiopian Embassy in Washington, denied Mr. Kahsai's statements and asserted that Ethiopian forces controlled all major towns in the province.

Mr. Demeke also criticized the recent decision by the Reagan administration to provide $5.5 million worth of military equipment to Somalia. "The government of Ethiopia deeply resents the decision of the U.S. to send arms to Somalia," he said. "They would give to the devil if it would serve their ends."

Somalia, which formerly received military aid from the Soviet Union, switched its allegiance to the West when Ethiopia aligned itself with the Soviet bloc, but it had not received direct military aid until the Reagan administration's decision to supply equipment.

Mr. Demeke said Ethiopia had every reason to be concerned that some of the U.S. military assistance might find its way to the Eritrean guerrillas.

Mr. Kahsai, asked about the U.S. aid to Somalia, said the Somali government had provided some military assistance to the Eritrean rebels. *He said the rebels* also relied on captured Soviet weapons.

"The Somali government has always supported the rights of the Eritrean people," Mr. Kahsai said. He would not speculate on whether the Eritreans expected an increase in support from Somalia as a result of the U.S. decision.

Renewed Fighting

Somalia has reported renewed fighting between its forces and Ethiopian troops along the border in recent weeks, but Ethiopia has denied that its armed forces were involved.

Mr. Kahsai said he did not believe that any renewed fighting along the Somali border would draw Ethiopian troops from Eritrea. He said most of the border attacks were carried out by "*opponents of Somalia*" in Ethiopia.

He said that the Eritrean People's Liberation Front planned to hold a meeting of its central committee, but that no date or site had been set. He said the rebels were still awaiting an answer on a two-year-old offer to negotiate with Ethiopia to settle the conflict.

The offer, which he said was drawn up in Sudan in November 1980 and was delivered to the Ethiopian government by East Germany, included a proposal of a referendum in Eritrea to allow its five million people to decide whether they wanted full independence, a federal link with *Ethiopia, or autonomy*, Mr. Kahsai said.

Mr. Demeke denied that there had ever been a formal proposal of negotiations from the rebels.

UNITA Claims 700 Killed in Angola

Reuters

LISBON — UNITA, the main guerrilla force fighting the Angolan government, said on Monday that it had killed nearly 700 sol*diers and captured a large quantity* of arms and ammunition in operations deep inside the West African state.

A UNITA communiqué gave no dates for the operations, which it said were a reply to the government's anti-guerrilla offensive launched with Cuban and Soviet *military support last July.*

It said the offensive had failed to dislodge the guerrillas and promised that UNITA would intensify its military struggle.

INTERNATIONAL Herald Tribune
Published With The New York Times and The Washington Post

When the Music Stops

From THE WASHINGTON POST

Mexico's distress is not, unfortunately, an isolated case. It is only the most dramatic example of the financial stress that is now widespread throughout Latin America and the Caribbean. As the political consequences begin to unfold, North Americans have good reason for anxiety.

It goes back to oil, and the great price increases of the 1970s. Oddly, the Latin countries that sell oil seem to be in as bad a position as those that must buy it. The buyers knew from the beginning that they were in for a harsh time. But in the oil-exporting countries, people came to expect a continuous crescendo of wealth. Now that things are turning out differently, governments are having great trouble explaining what went wrong — particularly where there is visible evidence of waste and corruption. There is a strong temptation, not only in Mexico, to blame it all on conspiracies, the banks and foreigners.

The economic turmoil of the past several years arrived in three waves. First came the oil prices of 1979-80, very bad news for the buyers. Next, the industrial countries of North America and Europe went into recessions accompanied by very high interest rates. Since most of the Latin countries had large foreign debts, the interest payments rose enormously while their ability to pay, by exporting to industrial markets, was limited by falling demand there. Finally, as a result of the widening recession, oil prices fell. They did not fall terribly far, but to governments happily counting on a continuous rise, it was a staggering reversal.

Each country's vulnerability affects, to one degree or another, its neighbors. Argentina, with a lot of oil and the most balanced economy of South America, in theory ought to be in good shape, but its government has come unraveled in the aftermath of defeat in the Falklands. Its foreign debts turn out to be larger than previous estimates had suggested, and there are now rumors of possible defaults. Brazil, a heavy buyer of oil and the most highly industrialized economy of Latin America, has acted vigorously to protect itself. But for Brazilians the cost will be an end, at least for now, to economic growth. In Chile, everything depends on the price of copper, and it has been falling for 2½ years.

Among the sellers of oil, Venezuela, with its long experience in the oil markets, apparently saw trouble coming and braced itself. For Mexico, in contrast, the tremendous oil earnings were a wholly new experience. Heavy spending, and heavy borrowing on future oil revenues, became uncontrollable, and the borrowing continued even as the interest rates continued to rise. Mexico apparently never gave much thought to the possibility that the music might stop.

Financial instability in Latin America means political instability, which, in turn, threatens several kinds of consequences to the United States. It means rising immigration, largely illegal. It means uncertainty regarding the bank loans, and they are large enough that any substantial default would have a severe impact on the banking system in the United States. It also means a decline in Latin American imports from the United States, and that is bad for U.S. employment and economic recovery. In the weeks ahead you will hear a lot about the urgent need for the United States to help its neighbors. That is not altruism. The need is real, and for the United States it represents the most immediate kind of self-interest.

Big Questions for Labor

From THE NEW YORK TIMES

On Labor Day politicians begin serious campaigning by saluting the working man, and Monday was no exception. Yet the political clout that created this tradition of respect has waned; the labor movement may be at its lowest ebb since World War II. Unemployment approaches 10 percent; protections that workers have long taken for granted are being challenged and inflation, though abating, has eroded the wage gains of decades.

Lane Kirkland, president of the AFL-CIO, thinks the way to reinvigorate the movement is to rethink its political strategy. He is trying to regroup the rank and file and point a new political course. It is a big challenge that raises big questions for all Americans.

Last fall's "Solidarity Day" protest was the first expression of Mr. Kirkland's more aggressive approach. It massed 250,000 people from labor, minority groups and liberal interest groups to protest the economic and social policies of the Reagan administration. Mr. Kirkland reiterated his plan of action earlier this year. "We are going to bring congressmen and senators to Washington who share our view of the government's role in a modern industrial society," he vowed.

Labor thus made itself a visible force at the Democratic Party's midterm convention. And the federation's executive council decided to endorse a presidential candidate before the 1984 primaries. The Democratic contenders are already lining up to address trade-union conventions.

There are reasons to question the plan's chances of success. More than 40 percent of union members voted for Ronald Reagan in 1980. Even in the face of a recession, union members have shown a remarkable patience with the president's economics. Tactics aside, what does labor propose to do with any regained political influence? Use it only to use governmental power to enlarge labor's own take at the bargaining table? Is there any recognition that the real enemy of prosperity is not just in Washington? There is weakness in all the industrial nations, some of which labor helped to create.

Can Mr. Kirkland bring himself to acknowledge that American labor has priced itself out of some industries and thus contributed to the dislocation of the American workforce. Can he make his members understand that reviving economic health will require abridging the special privileges that some labor groups have long enjoyed?

As enlightened and more powerful labor movement would seek innovative remedies, like retraining workers in dying industries for more technical jobs in other sectors. It would take the lead in designing equitable arbitration systems that could settle the contract disputes of public employees without destructive strikes — like the air controllers.

Could a more influential union movement accept less in the short term to achieve more for itself and the nation in the long run? If so, working men and women would be remembered for helping to forge a new social contract that offers sound alternatives to unemployment and greater security against economic dislocation. A labor movement united to fight for such constructive bargains would march beyond politics, to leadership.

Other Editorial Opinion

Poland's Future

No movement can be called defunct which can bring some 70,000 out on the streets despite repeated threats by the military regime and the strong possibility of a truncheon over the head or even a few years in prison.

On the other hand, given that Solidarity once boasted 10 million members, nearly all of them workers of the so-called Socialist Paradise, this was no mass parade. ... Solidarity cannot oust Jaruzelski, and anything that replaces his regime is likely to be less appetizing as well as less accommodating. As the West is neither prepared nor equipped to bail out the Polish people by force, the only useful role it can play is to help along that compromise by carefully calculated pressure and persuasion.

— *The Observer (London).*

It is now clear that the clashes in Poland are more violent than first reports suggested. The regime's reaction confirms this. Had the demonstrations been a failure the regime might have felt confident enough to relax martial law, at any rate, if its intentions are those it declares.

Instead it is using the demonstrations to justify further tightening of the screws and very drastic moves not only against some of those who took part but also against former members of the Workers' Defense Committee (KOR) who have been interned since December. This strongly suggests that the regime is scared and losing hope of winning popular support.

— *The Times (London).*

Events in Denmark

The outcome of negotiations to form a new government will ...be a minority non-socialist administration, exposed to constant risk of defeat by an unholy alliance of the (Poujadiste) Progress Party and the socialist parties. In these circumstances it will probably be short-lived and its ability to tackle the economic problems limited.

These problems are the consequence of having tolerated a deficit on the current balance of payments for 20 years. ...The task facing the new government is to bring the external and budget deficits under control, an immensely difficult problem, as long as the real rate of interest (13 percent) is so high.

But if the deficit is not brought under control, there is a risk that the government will have to tolerate an increasing degree of financing by monetary creation. This would cause accelerating inflation and be accompanied by devaluations, clearly a situation which must be avoided. Devaluation would lead to an appreciation of the value of the external deficit, which it might then be difficult to finance, bringing Denmark face to face with the Mexican dilemma.

— *The Financial Times (London).*

SEPT. 7: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: San Francisco Plague

WASHINGTON — The bubonic plague in San Francisco has admittedly got beyond control of the city authorities. The acting mayor has appealed to the president to have the federal government assume entire charge of coping with the disease. Mr. Roosevelt has communicated with the surgeon general, Dr. Walter Wyman, who believes that the disease can be eradicated and the spread prevented. The present action is in marked contrast with that taken several years ago when the plague visted the city. At that time the city officials, backed by the business interests, were charged with concealing the fact that the plague existed there at all. In consequence, the conditions were much worse.

1932: German Rearmament

KONIGSBERG, Germany — Without waiting for France's reply to Germany's demand for equal rights to armaments, the real master of the German government, Gen. Kurt von Schleicher, who has just here to attend army maneuvers, announced: "Germany will carry out the measures necessary for the national defense under all circumstances." The statement was made to a reporter of the Allgemeine Zeitung, who states that Von Schleicher emphasized the words "under all circumstances." He continued: "We shall no longer put up with being treated as a second-class nation," and stressed Germany's determination to safeguard East Prussia from Polish invasion.

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Would a Nuclear Freeze Put Russia Far Ahead. . .

By Richard Perle

WASHINGTON — Though the House voted down the nuclear freeze, resolutions favoring a freeze will appear this fall on ballots in more than a half-dozen states representing nearly a quarter of the U.S. population. The results will send an important signal to friends and foes abroad.

Proponents of a freeze contend that it would reduce the risk of nuclear war and bring about a speedier reduction in nuclear arsenals than can be expected from President Ronald Reagan's arms-control proposals. They argue that the freeze would stop the "arms race" and create incentives for the Soviet Union to agree to nuclear-arms reductions. They are wrong.

The various freeze resolutions would apply to the production, testing and further deployment of nuclear warheads, missiles and other delivery systems. That would terminate every current program designed to correct the problems in America's strategic posture that have developed as a result of the Soviet Union's large-scale buildup in arms in recent years.

But the freeze would not reach a number of the Soviet programs that have the greatest potential for upsetting the strategic balance. The freeze would bar the United States from developing a survivable intercontinental ballistic missile, but it would not eliminate the threat that makes that effort necessary.

The freeze would bar both U.S. development of a modern bomber to replace the venerable B-52 and American deployment of cruise missiles on B-52s, but it would not prevent the Soviet Union from thickening even further its extensive conventional air-defense network, which is a serious threat to the U.S. strategic-bomber force.

The freeze would stop the U.S. Trident submarine program and put on ice American programs for submarine-launched cruise missiles, but it would not halt high-priority Soviet programs aimed at neutralizing the United States' aging submarine fleet.

In Europe, the freeze would permit the Russians to continue to menace the North Atlantic Treaty Organization with hundreds of intermediate-range-missile warheads while throttling NATO's plans to deploy even a partial counter.

The freeze would force the United States to abandon programs for making its nuclear weapons safer — for example, those now under way to render the weapons even less susceptible to detonation through tampering or accidents.

Keeping the U.S. strategic deterrent effective requires constant adjustment, repair and modernization. The freeze would stop all that — freezing in all the accumulated problems and vulnerabilities, and freezing out essential corrective programs.

That problem would not affect the Kremlin's arsenal as it would America's. U.S. nuclear-weapons systems generally are older than Soviet systems, and many of America's will soon reach obsolescence while the Russians' systems will remain operational for years. About 85 percent of Moscow's nuclear-missile warheads are on systems deployed in the last 10 years; only 45 percent of America's are on systems deployed in that period.

The concept of the freeze misses the central point about nuclear weapons: They are not inherently good or bad. They are good if they promote stability and contribute to deterrence of war, and bad if they diminish stability and weaken deterrence. The freeze proposal would deal with the "arms race" by benching the good and allowing the bad to run. It would erode the survivability of U.S. strategic forces, thus undermining the policy of deterrence that every administration since Harry S. Truman's has relied on to keep the peace between the superpowers. By damaging deterrence, the freeze would upset the stability of the strategic balance and thus increase the likelihood of war.

"Arms race" — I use quotation marks because the term is misleading. It is not true that the respective numbers of nuclear weapons deployed by the United States and Soviet Union have both been spiraling upward.

America has, over the last 15 years, repaired, replaced and improved certain nuclear-weapons systems, but it has not increased the size of its nuclear arsenal. In fact, it is smaller by several thousand nuclear warheads than in 1967. The Soviet arsenal has grown since 1967 by some 6,000 nuclear warheads.

Why have American proponents of the freeze ignored its effect on the stability of the strategic balance? It is because they seek a simple answer to a complex problem, a prescription that can gather political momentum in an understandably anxious but imperfectly informed electorate.

To the extent that its proponents really care about arms control, they intend the freeze to hasten the negotiations for nuclear-arms reductions. American and Soviet representatives are already engaged in negotiations on Mr. Reagan's proposed reductions in strategic arms and in intermediate-range nuclear forces. Washington and Moscow would not conduct the START and intermediate-range-weapons talks at the same time as talks on implementing a freeze, so a freeze proposal entailing lengthy, contentious negotiations would amount to a wide detour rather than a short cut and would turn the president's path to arms reduction into a cul de sac.

Its proponents call for a "verifiable" freeze, yet the total ban on testing and production called for in freeze resolutions would be unverifiable. Thus, even if voted, the freeze could not be implemented. The administration, in developing its arms-control policies, has been careful to take verification fully into account. The freeze resolutions do not.

Even if a freeze were quickly negotiated and implemented, it would preclude rather than facilitate substantial arms reductions. For the past 15 years, the Russians have relentlessly built up their nuclear forces. What incentives can the United States now put forward to induce them to cut, say, the numbers of their heavy land-based missiles or large intermediate-range missiles? America now has no missiles of either type, and until it committed itself to deploy the MX at home and the Pershing-2 and ground-launched cruise missiles in Europe, Moscow refused to discuss such reductions seriously.

Now that the Russians are finally at the table to hear U.S. thoughts on reductions, the freeze proponents want to ban the programs that represent the only reason for Moscow even to consider American reduction proposals.

With a freeze implemented, the Soviet Union would find itself in a commanding strategic position. Two of the three legs of the U.S. strategic deterrent would be vulnerable — American ICBMs and bombers — and Soviet resources could be concentrated on consigning our submarines to a similar peril. That is why Moscow wants the freeze resolutions to pass — and why the Reagan administration does not.

The author is assistant secretary of defense for international security policy. He contributed this commentary to The New York Times.

. . . Or Trim Risk of Blind Delegation of Power?

By John Kenneth Galbraith

CAMBRIDGE, Massachusetts — Like others in these last years, I've been deeply concerned over the dynamics of the nuclear arms race and the somber promise that it holds for mankind. Feeling so, I have tried to do whatever might be possible as a private citizen to arouse interest in arms control and concern for the exceedingly probable disaster if it does not succeed.

I was a member of Americans for SALT; I have had a role in the Council for a Livable World and been a cochairman of the American Committee on East-West Accord; I persuaded the BBC, in the course of a television series on the issues of our time, to do a sequence in Death Valley to show how the landscape between Hartford and Philadelphia would look after a modest nuclear exchange; I have made speeches for Physicians for Social Responsibility, our most effective organization in advising people as to the consequences of nuclear war.

At the Democratic National Convention in 1980, I joined Adm. Gene La Rocque of the Center for Defense Information and Frank Askin, a lawyer from New Jersey, to speak in favor of a resolution calling for a bilateral nuclear weapons freeze. The freeze, a straightforward and wholly practical first step, seemed by far the best way of getting the issue away from the nuclear theologians who have made weapons policy, including arms control, their exceptionally private preserve.

The convention experience was especially instructive. Harold Brown, then in his residual days as secretary of defense, reproached me with extreme solemnity for appearing on so frivolous a mission. He was there to lobby for the MX missile.

My own words, like those of my colleagues, were greeted with great waves of apathy. We were resoundingly defeated.

I cite these efforts not to suggest any seniority in the present discussion but to establish my credentials for affirming that, despite much effort, we were not getting anywhere until Ronald Reagan and his people came along to bail us out.

Concern for the danger of nuclear confrontation and war was, I am persuaded, just below the surface. But like the prospect of death, with which it is so largely identical, it was subject to psychological denial. Better and certainly happier not to think about it.

Needed was a major shock or series of shocks to bring the alarm into the open. This we could not provide. And this the Reagan administration, in a superbly orchestrated effort, has provided. That it was not intended does not subtract at all from the achievement.

The stage was set by the big increase in military spending, which was linked, in turn, to the assault on social expenditures. The first made the second necessary. Many in the past had sought to show military expenditures are at the expense of other public needs. The administration made the choice clear, vivid and unmistakable, a major exercise in popular education.

Then came the renewed commitment to the MX missile and the extended debate over its basing. This was admirably designed to arouse important and articulate people, and particularly western Republicans and the Mormon church. There is a wholly nonpartisan aversion to having the MX as a neighbor and target.

Next came the well-publicized decision to proceed with the neutron bomb with its thought-provoking emphasis on the destruction of people as opposed to property.

This highly substantive action was combined with more theoretical talk of a limited nuclear war, which emerged as a quite probable prospect, tolerable except to the Europeans immediately involved. The latter promptly raised their voices, which, not surprisingly, had resonance across the Atlantic, including with those who wondered in their inconvenient way if a limited war could ever be limited.

Next came the renewed emphasis on civil defense. The educational value of this is simply immense. Nothing so aroused my Cambridge, Massachusetts, neighbors as a civil defense advisory saying that, in the event of a nuclear attack, we should all go in an orderly manner to Greenfield out near the Berkshires — those of us who had cars. As an especially telling note, we were cautioned to take our credit cards with us.

The effort to arouse the public and keep it aroused continued. Early this summer, we had word of the plans for a five-year nuclear war from which we would emerge victorious if not quite happy and glorious. Following some criticism, Defense Secretary Caspar Weinberger reiterated his commitment, adding only the thought that while we might not win, we wouldn't lose.

Meanwhile, from the National Security Council came the news that it was national policy "to prevail" over the Soviets, this being one of those inspired ambiguities that is especially designed to give scope to the imagination. A NSC staff member, Prof. Richard Pipes, had earlier been quoted as saying that there could be no peace with the Soviets until, in a generous way, they abandoned their economic and social system. In other words, a state of permanent war with the Soviets.

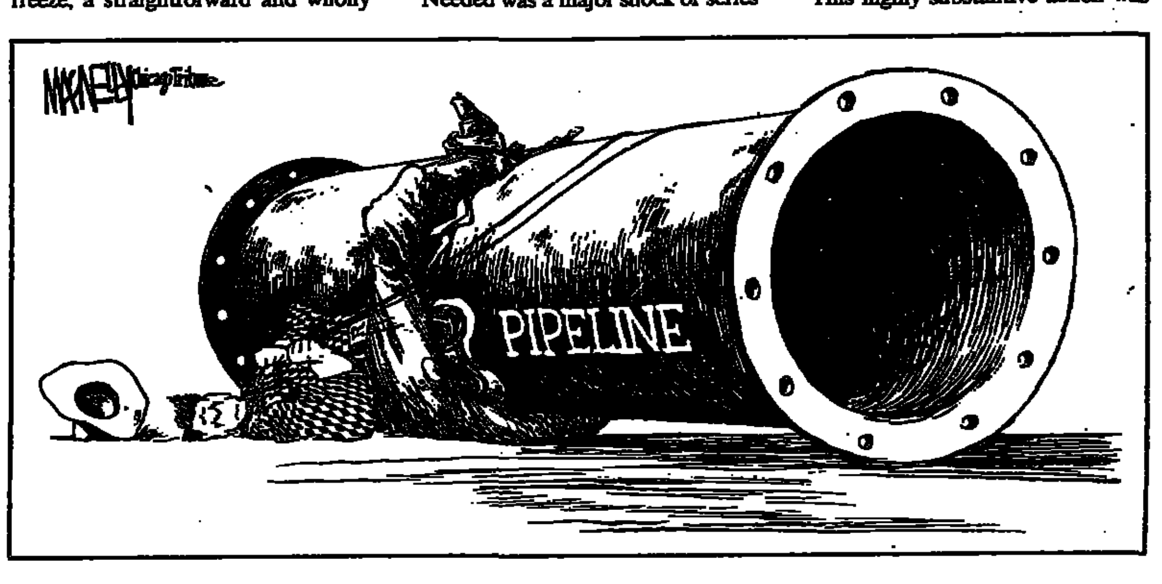
In July came word that the administration would no longer have negotiations on the comprehensive test ban; there were doubts about verification. Better the risk from the weapons. In August, Energy Secretary James Edwards went out to Yucca Flats to celebrate the anniversary of the bombing of Hiroshima by being present at a nuclear test. He proclaimed it "exciting" and promised more.

Prof. Eugene Rostow, in charge of arms control negotiations, had earlier recurred to Hiroshima and Nagasaki. Asked if he did not fear a nuclear war, he responded that Japan had survived a nuclear attack and flourished. How better could one have guided thoughts to the unfortunates who were in the two cities on those summer days and who neither survived nor flourished?

Thus the contribution of the administration. Can anyone doubt its effectiveness compared with the feeble voices previously raised? In consequence, the freeze has become a national crusade; there has been nothing comparable since the Vietnam War; as all know, it came within two votes of success in the House of Representatives.

Considering the risks we had been accepting, including that of the blind delegation of power to those who make nuclear game theory and the resulting megadeaths their monopoly, can anyone be sorry? One must even marvel, in a certain way, at the political courage (or insouciance) that was involved. Not previously had anyone imagined that massive and enduring death was a salable proposition for the average American voter.

The writer is professor emeritus of economics at Harvard. He contributed this commentary to The Washington Post.



U.S. Needs a Rational Trade Stance

By Jake Garn

WASHINGTON — Diplomatic language is seldom blunt. Its messages are clear, however, to those who speak it.

As British historian and diplomat Sir Harold Nicolson pointed out, when a statesman announces that his government "cannot remain indifferent" to a certain situation, he means that the situation is one in which his government is likely to intervene. Or, should a government "claim a free hand," it is indicating that a rupture of relations is under consideration.

So, in a sense, West Europeans are right when they protest that Moscow would never do anything so crude as to threaten to turn off the flow of natural gas through the proposed Siberian pipeline unless political concessions were granted. Influence is never having to remind people that you are in charge. In a crisis, or in a policy conflict, the Russians need only remark that a given course of action would require them to "re-evaluate their commercial relations," and the West Germans would understand.

Even more likely, the very existence of the arrangement will color relations. As Josef Joffe of Die Zeit commented, "The sheer possibility of an interruption provides the psychological environment where arm-twisting becomes superfluous."

This is the primary danger of the pipeline, which along with other dangers — including the financing of Soviet economic and military development, the transfer of technology and the facilitation of continued Soviet repression of its captive masses — will be furthered by the pipeline despite official West German counsel "not to worry."

Some critics are trying to fault President Reagan for making clear U.S. opposition to it. That opposition would have been anything but clear if Washington continued to prohibit U.S. companies from participating directly in the project while allowing them to circumvent controls through the licensees. Yet the Europeans want it, and there is no sense — so the argument goes — in getting them angry by refusing to go along.

It is an unwise policy to pick a fight with your allies every time you are in disagreement. Close relations require a lot of give-and-take. Yet there are some issues that demand clearly exercised leadership regardless of the immediate unpopularity. The stakes involved in the pipeline project make it one of those issues.

What does such a policy achieve? A few months ago, the Europeans gave nothing but lip service to the development of alternative energy sources in the event of a cutoff by Russia. Now, realistic plans are being implemented. A few weeks ago, the European allies would agree to nothing more than "prudent" credit arrangements with the Soviet Union. Now, there are increasing urgings by the Europeans for a rationalization of credit arrangements with the East and an elimination of credit subsidies.

Making commercial relations more rational is, after all, what the Reagan administration is and should be seeking, not the introduction of economic warfare. There is something amiss when the West's geopolitical adversary is accorded financing from Western banks at rates unavailable to a single Western government.

What the pipeline represents, and what commercial relations with the East have for too long been, is foreign aid to Communist industrialized countries. If the Europeans want job stimulation through easy-term exports, let them direct such attention toward the pro-West underdeveloped countries.

What is needed, long overdue and being considered more seriously in Western Europe these days is a rational trade relationship with the Soviet Union and its allies. Such a policy should be based on sound commercial principles and mutual advantage, and should be conducted within the context of strategic considerations, such as a strong policy controlling the flow of high technology.

The current structure of Eastern European debt, for example, must be evaluated in light of these considerations. It would be unforgivable folly for the West to fail to use its most powerful asset, its economic strength, to exact moderation in conduct from its adversary.

When the Soviets quash another rebellion in the East, or when they foment one in the West, we need to remind them that we, too, can "re-evaluate our commercial relations." Making our trade and credit policies more rational would allow us to use our competitive advantage while at the same time exerting pressure on the countries of the Soviet bloc to make necessary economic and social changes.

There will assuredly be disagreements in the alliance over the specifics of such a policy. That is what makes this alliance different from the one that confronts it. That does not mean that the United States should defer to its allies when it disagree with them. It does mean that U.S. policies must be clear and consistent as we work out our honest differences. That is not domination; it is leadership.

Jake Garn, Republican of Utah, is the chairman of the Senate Banking Committee. He contributed this article to the Los Angeles Times.

LETTERS TO THE EDITOR

'Peace for Ulster'

Now that the Israelis have succeeded in ridding themselves of PLO terrorism, I suggest that the British Army invade Ireland in a "Peace for Ulster" move. The army should keep on bombing and shelling Dublin until all IRA men are rounded up and shipped to their supporters in the United States.

LOY AJJAN.
Doha, Qatar.

Agricultural Strains

Regarding "Agriculture Divides U.S. and EEC" (IHT, Aug. 14-15): The American view is that "EEC policy is to keep farmers prosperous ... even though those farms might not be efficient enough to be competitive with U.S. farms." This may be true in some fields, such as grain production, which afford areas much larger than we find in Europe. But another aspect is neglected:

No European farmer gets a farm hand for $5 a week. We have no outlawed migrant workers to compete with each other for a mere pittance, forced to do hard labor in the fields by the brutal means of U.S. farmers, who treat them like slaves, as Professor Weissbrodt reported to the Human Rights Commission of the UN in Geneva.

Furthermore: Prices that dominate the world market are fixed by U.S. agro-business, producing in countries where social security laws or human rights don't exist and cheap labor is guaranteed by repressive dictatorships.

These are the reasons why European farmers who pay honest wages or work only with their family are not as efficient; but this kind of competition is similar to the situation between the farmers of the North and the plantation owners of the South that led to the American Civil War.

I. CZERWENY-ARLAND.
Graz, Austria.

Nuclear Legerdemain

Regarding "Once Unthinkable 'Launch Under Attack' Nuclear Strategy Is Being Discussed" (IHT, July 19): The following legerdemain contributes to the wide mystification campaign aimed at presenting nuclear war by accident as one of the normal hazards of life: Accidental war is equated to an accidental radio signal being mistaken as a firing code. This disregards the following undeniable facts. The nuclear weapons systems of the two superpowers through their inherent dynamics become computer dependent with regard to attack detection and hence to decision on retaliation.

But there are no methods of "fully" testing and debugging complex programs for computers (software) and even less to foresee all possible circumstances in producing it.

Consequently, such software produces errors including false nuclear alarms (five during only a period of 18 months, according to UPI, May 26, 1981). In fact, increasing sophistication of nuclear weapons results in nothing but in more unpredictable, erratic behavior of those weapons.

False nuclear alarms and other possible errors are compounded by the drastic reduction in the flight time of missiles to only 5 to 6 minutes by deploying new nuclear weapons (such as the Pershing-2) nearer to their strategic targets. Thus, the two antagonistic global nuclear weapons systems will serve in a single random time-superbomb which may become self-activated by "retaliating" against a false nuclear alarm due to lack of time for verifying it.

BERNARD BEREANU.
Bucharest.

Airborne Ads

Regarding "Financing the Music In the Air" (IHT, Aug. 16)): There are about a dozen airlines which include commercials in their in-flight movie programs. The most favored type seems to be a featurette running about 10 minutes and generally including four or five sponsored messages. One U.S. carrier uses a different formula — a 60-second single-sponsor commercial immediately ahead of the feature movie. Whichever formula is used the revenue for the airline is substantial, probably at least 10 cents per passenger per showing which is a modest sum for sponsors to pay for getting their message to a virtually captive audience.

ANTHONY VANDYK.
Switzerland.

Radio Marti

Regarding "Radio Marti's Hour," (IHT Aug. 20): Nowhere in the editorial is the Voice of America mentioned. Nowhere is it indicated what Radio Marti could possibly do that the Voice could not do. The editorial says Radio Marti could "make available to interested Cubans a flow of information and opinion that Americans have routinely provided to other Communist-controlled countries for decades." That is the objective and the rationale for the Voice, one it has been operating under for decades.

Right now the Voice is heavily jammed in Cuba. What makes you think Radio Marti won't be jammed? Cuba is a small nation, but one with large jamming capabilities. And the frequency Radio Marti plans to use is the same already used by local radio stations across the American continent.

But the principal question remains: If it's radio information projects you want, why Radio Marti and why not the Voice of America?

RICHARD P. WILSON.
Mobile, Alabama.

Israel's Goals

Regarding "Israeli Objectives" (IHT, Aug. 28-29): Could it be possible that Israeli Foriegn Minister Shamir has neglected to mention one of the major objectives of his country's military activity? We read on page one of the same edition that the popularity of the Begin government has soared in Israel. Just before the incursion, the coalition by which Mr. Begin's Likud party governed was in grave danger of collapsing. This sounds like a chapter from Mrs. Thatcher's book.

MICHAEL FLYNN.
Amsterdam.

Debt Servicing Remains Major Hindrance to Economic Resurgence

Overruns, Subsidies Swell Deficits for State Projects

By Juan de Onis

BRASILIA — Brazilians were going to bed worrying about a foreign debt of $62 billion and woke up one day last month to discover, *from an offhand remark by President João Baptista Figueiredo, that the* country really faced a foreign debt of $80 billion.

The Central Bank confirmed the higher figure and explained that it had not been including $8 billion of less-than-one-year-old debts in its overall *figure. It said the additional $10 billion was what Brazil* expected to add to its foreign debt this year.

A few days later, Gen. José Costa Cavalcanti, president of ELETROBRAS, the state electric holding company, explained how the debt is escalating. He said a six-month delay in completion of transmission lines from the giant hydroelectric dam at Itaipu on the Parana River would raise the cost of the project from $12.6 billion to $14 billion because loss of potential electricity sales would require more high-cost borrowing.

The initial cost estimate of the Itaipu project, the world's largest hydroelectric plant with a rated capacity of 12,500 megawatts, was $4.4 billion. Thus, the cost of an installed kilowatt has more than tripled.

Public Sector Deficit

Such cost overruns on major public projects are one of the reasons Brazil's state enterprises are expected to show a deficit of more than $10 billion this year. Combined with a host of subsidies being provided to agriculture and exporters, the total deficit being financed by the Central Bank exceeds 5 percent of Brazil's gross domestic product. The domestic public debt has risen 54 percent, to more than $19 billion, in the first six months, and 160 percent over 12 months.

In another consequence, payments to companies that have done contracting work for state firms or sold equipment to them are in arrears to the amount of $800 million.

Forced to turn to bank loans to cover their operating costs, the private contractors and industrialists have to pay interest rates of more than 40 *percent a year in real terms. "This has put some companies into bankruptcy* and others are on the way unless the government pays," said a São Paulo contractor.

After an investigation of the situation in state enterprises by the *National Intelligence Agency, President Figueiredo ordered that all outstanding* payments be made by next year. When he took office in 1979, he had issued a similar order, but instead the bill grew.

Economy Reeling

Brazil's 50 million elegible voters are now being called to elections Nov. 15 for governors, federal and state congressmen and mayors in most cities. The Brazilian economy is in recession, still reeling from a 9-percent drop in industrial output last year. Inflation is running even higher than last year's 95 percent and some observers see it reaching 115 percent this year.

In the pre-electoral climate, with the military rulers hoping to retain control of congress and key states against the opposition candidates, state enterprises are not likely to raise prices. They will therefore have to borrow to pay their bills. ELETROBRAS has already announced it will seek $200 million abroad.

Planning Minister Antonio Delfim Netto, the master juggler of Brazil's economic policies, seems determined to borrow more for new projects as a way of assuring foreign exchange inflows to meet current annual debt payments of $20 billion — even at 2¼ percent over Libor for long-term loans.

In recent weeks, Brazil has signed up $1.4 billion in new loans for the Carajás iron ore project, and $400 million for the Tucurui hydroelectric project that will supply the Amazon mineral region with electricity at a project cost of $6 billion.

"You have to keep on lending to Brazil or they may never be able to pay off the debt," a French Treasury official said. France is lending $1 billion a year to Brazil. Most project loans are tied, of course, to purchase of equipment from the lending country.

Export Potential

"Brazil is irreversible; we will become a world power or bust," said Szaya Luis Edelman, a Brazilian sales manager for a São Paulo industry that produces steam turbines, machinery for cement, sugar, steel mills and farm equipment. Although production is down 30 percent from last year, he is optimistic about the future.

"The last thing we need to do is to refinance the foreign debt; we have a viable economy and all we have to do is develop our resources and export," said Mr. Delfim Netto, who was previously Minister of Finance when Brazil's "economic miracle" brought annual growth of more than 10 percent of gross domestic product before the oil crisis of 1973. Brazil's oil imports now cost $11 billion a year.

There is no question that Brazil has the agricultural and mineral resource base, and the industrial capacity, to generate major increases in exportable products. Exports rose from $3.9 billion in 1972 to $23 billion last year. But over the same period, the foreign debt rose even faster from *$9.5 billion to $61.4 billion (excluding short-term debt).*

Now, with the foreign debt rising another $10 billion this year, exports may be the Achilles heel of Mr. Delfim Netto's balance of payments strategy. After a 30-percent increase in exports during the second half of last year, *to $13 billion, first semester exports this year are only* $10 billion.

Protectionism

Brazil started the year with an export target of $28 billion but it is going to be hard to reach last year's level.

Shocks to export expectations have come from a variety of circumstances. Some major markets, such as Nigeria, Algeria and Iraq, suffered big drops because of the fall in oil prices. The Falkland Islands conflict *reduced the Argentine market* by 35 percent. Poland, which owes Brazil more than $1 billion, also became a dead market.

But even more threatening was the rise of protectionism in industrial

(Continued on Page 9S)

Carlos Duarte

Union Naval of France bought this new 37,750 deadweight-ton freighter.

Shipping: Reforming Economist At Bridge

By James Bruce

RIO DE JANEIRO — With its scenario of intermittent crises and rescues, Brazil's rapidly maturing naval construction industry recalls the "Perils of Pauline" — periodically tied to the tracks but managing well enough through most of each episode.

During the late 1970s, becalmed shipbuilding industries around the world watched with envy while Brazilian yards launched ships in almost assembly line fashion as part of an ambitious five-year (1974-1979), 5.3-million-deadweight-ton construction program.

Then, in 1980, Sunamam, the federal authority that finances starts, declared itself nearly bankrupt due to time and cost overruns of the five-year plan, only now nearing completion. Brazilian yards — concentrated 80 percent around the major port city of Rio de Janeiro — faced the threat of increasing idle capacity, mass layoffs and stagnation as their orders ran out.

Nevertheless, Sunamam snapped back last year with a new year-by-year order plan designed to pump 1 million dwt and $1 billion worth of new starts into the *sector annually through 1983.* When contracts for the new targets were signed during the final quarter of 1981, the industry breathed a *collective sigh of relief.*

When it appeared that Sunamam might not be able to achieve its own new goal this year *and next, an "interest equalization"* scheme was introduced to help finance up to $400 million

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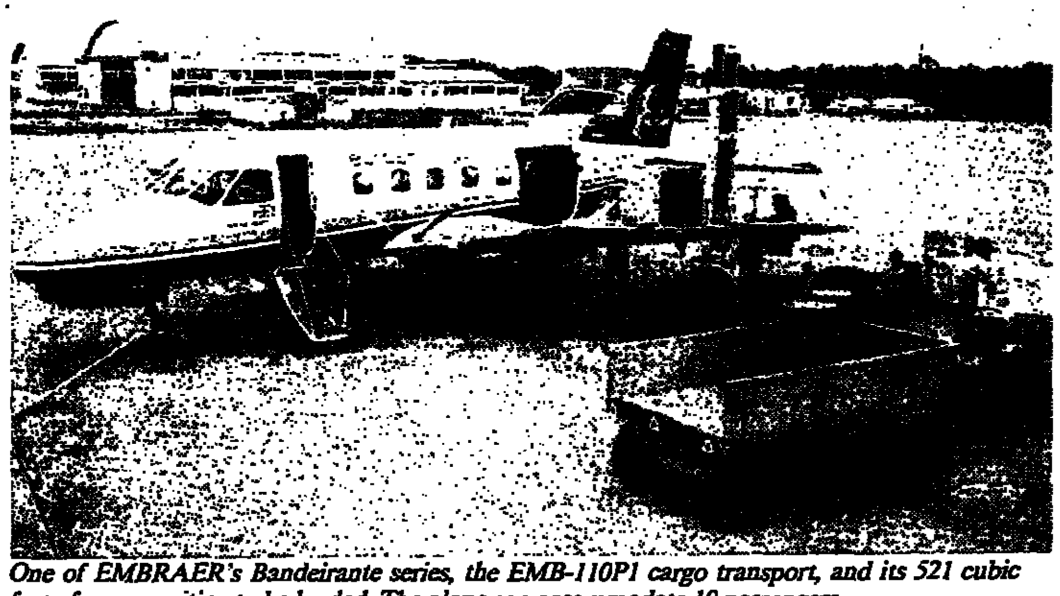

One of EMBRAER's Bandeirante series, the EMB-110P1 cargo transport, and its 521 cubic feet of cargo waiting to be loaded. The plane can accommodate 19 passengers.

Aviation: Success Story

World Sales, and Problems, Soar

SAO PAULO — Brazil's aircraft industry has flown so high in international sales since it took off 10 years ago that its wings are being scorched, like those of the young Icarus.

The heat is coming mainly from U.S. competitors in the small commercial aircraft field, such as Fairchild and Cessna. Both companies have tried to obtain retaliatory trade measures against Brazil's state company, EMBRAER, for its aggressive foreign sales efforts.

The center of this trade dispute is EMBRAER's Brazilian-designed Bandeirante, a thrifty, twin-engine turboprop aircraft that carries 16 to 18 passengers. It has proven so popular with commuter airlines in the United States that 102 have been sold there.

Fairchild has filed a complaint with the U.S. International Trade Commission claiming injury from EMBRAER's sales. The complaint said EMBRAER had received subsidies from the Brazilian government for the development, production, and export financing of the aircraft and asked that countervailing duties be imposed.

The dispute is a good example of the problems faced by new industrial countries, such as Brazil, when they move into technologically advanced export sectors that have been dominated by the developed *industrial countries.* The ITC has 90 days in which to make a finding.

EMBRAER's sales abroad last year were $102 million, and are expected to reach $140 million this year. Export contracts with France include 41 Xingus, a smaller tur*boprop passenger aircraft, for the* French air force, and 18 Bandeirantes. Britain will receive 30

(Continued on Page 10S)

BASIC DATA

The Federative Republic of Brazil, the largest country in South America, is divided into 22 states, each with its own constitution and elected government, and four territories and the Brasília Federal District. Most major cities are along the narrow Atlantic coast strip.
Population: 123,030,000 (1980 estimated).
Area: 3,286,470 square miles.
Gross domestic product (1979) $214.58 billion; per capita income (1978) $1,523; imports (1980) $25 billion; exports (1980) $20.13 billion.
The cruzeiro was traded at 192.71 per U.S. dollar on Sept. 3.

Agricultural Expansion Key to Industry Goals

PIRACICABA, São Paulo State — Brazil's industrial development is closely linked now to the expansion of this vast country's agricultural production, and no longer takes place, as in the past, at the expense of farm income.

As in Western Europe, the United States and Japan, the importance of a modern, efficient agriculture providing food for urban populations and abundant raw materials for processed exports is recognized here as an essential element for industrial Brazil.

Two *major concerns for Brazili*an policymakers, promotion of exports to finance external borrowing and substitution of petroleum imports by domestic energy sources, have given agriculture the highest priority in official development plans.

"The jobs of industrial workers in São Paulo now depend on what soybean farmers plant in Rio Grande do Sul and on the corn, rice and beans from the new lands in Rondonia," said Antonio Delfim Netto, Brazil's minister of planning.

Priority on Agriculture

More than half of the $6 billion in low-interest, and therefore subsidized, official credit available this year is going to agriculture. A government purchasing agency buys 12 major food crops at minimum prices if there are surpluses. Since 1979, Brazil has not had to import any major food staple other than wheat.

Instead, Brazil has moved into world markets as a major exporter *of industrialized agricultural products.*

In 1978, Brazil managed to export only $46 million in poultry although frozen and canned beef exports were already among Brazil's large agricultural export earners. Last year, based on expanded corn and soybean production, frozen poultry exports reached $354 million, and are expected to be about $500 million this year.

Nine agricultural exports, in raw or industrialized forms — coffee, cocoa, sugar, tobacco, oranges, soybeans, cotton, poultry and beef — accounted for $9.5 billion of Brazil's $23.2 billion in exports last year.

With a population of 120 million people, growing at about 2.3 percent a year, Brazil's major agricultural customer is the home market. But this country is cultivating only 50 million hectares, or one-sixth of the potential crop land, so there is great room for expansion of both domestic food crops and industrial raw materials from agriculture.

A major structural reform of Brazilian agriculture, involving opening *new lands,* developing technology for tropical agriculture, extension of credit and market services to medium and small farmers, and *transportation are re*quired to keep pace with food demand and higher exports.

"An expanding and more profitable agricultural sector inevitably offers a growing market for Brazil's currently underutilized agro-mechanical, chemical and fertilizer industries. This interaction between agriculture and industry depends very heavily now on government credit programs. Nowhere is this clearer than in Brazil's energy policy to replace gasoline — and *eventually* — diesel fuel, based on petroleum imports, with alcohol fuel.

Alcohol can be produced on an industrial scale from raw materials, such as sugarcane, that can be grown in Brazil's tropical latitudes during most of the year. Brazil's domestic production of petroleum, 260,000 barrels a day, covers only about 32 percent of the rock-bottom refinery run for petroleum products. The imported crude and other products cost Brazil about $11 billion a year, more than half of imports.

PROALCOOL, the government's alcohol-for-power program, is a vast agro-industrial effort to cut back on dependence for gasoline and diesel fuel on foreign sources that weigh so heavily on Brazil's balance of trade.

The PROALCOOL program, run by an interministerial council and a permanent technical secretariat, is backed by about $600 million in official credits a year. This highly *subsidized* credit is *supposed* to induce tens of thousands of farmers, producers of raw materials and industrialists responsible for distilleries to run the risks of the alcohol expansion plan.

Intensively promoted by the government since 1979, the novelty of converting from gasoline to alcohol at the service station pump initially gave rise to easygoing jokes. (For example: "Give me 50 liters, 49 in the tank and one for me," said the driver to the service station attendant.)

But the public attitude became more serious when problems arose with alcohol-fueled engines.

At the start, gasoline automobile engines could be converted to 20-percent alcohol without too much difficulty. But the jump to 100-per*cent alcohol engines by Brazil's au*tomotive industry left something to be desired in the efficiency of some models. Consumers began backing away, although alcohol had a price advantage over gasoline.

By the 1979-1980 crop year, alcohol production had risen to 3 billion liters a year. Huge investments, employing government credits but private capital as well, were being made to expand output, both in more sugarcane and in distilleries.

The government target for 1985 is 8 billion liters, and the crisis in consumer withdrawal had to be confronted. With storage tanks filling up 1.9 billion liters in unsold alcohol stocks, the government reduced sales taxes on alcohol-powered automobiles, and fixed the price of alcohol at 59 percent of the heavily taxed price of gasoline.

Automobile manufacturers, hit with a 30-percent drop in sales last year, *resumed production* and promotion of the alcohol models — in some cases showing great improvement in engine efficiency. At a meeting with sugarcane producers and automobile executives, agreement was reached to try for production of 200,000 alcohol models this year, against 140,000 last year.

—JUAN de ONIS

Energy: Searching for Alternate Sources From Alcohol, Water, Coal

By George Hawrylyshyn

RIO DE JANEIRO — Petroleum is a made-to-order scapegoat for Brazil's economic woes.

Even though in Brazil, as well as in other parts of the world, many factors contributed to the global recession, the spiraling prices of imported crude coincided with the downturn of the economy, and the Arab oil-producing countries were the *most visible culprits on whom all the* blame could be laid.

In the late 1960s and early 1970s, Brazil was riding the crest of its economic miracle. The growth in the gross national product was soaring above 10 percent and inflation was down to an unusually low — for Brazil — 30 percent.

Such grandiose projects as the Trans-Amazon Highway, Itaipu, the world's largest hydropower station, and Carajás, the world's largest iron mine, were under way. *All* over the country construction scaffoldings were going up for luxury and low-income housing, as well as factories, ports, roads, bridges, airports and other public works projects.

Industrial production had increased to the point that Brazil was producing close to 1 million cars a year and ranked among the 10 top aircraft manufacturers in the world. It had also *obtained* many other honorable rankings in agriculture and manufactured goods. In fact, this giant nation of 120 million had become the world's eighth largest economy.

Foreign trade was growing and investments and loans were practically there for the asking. Although Brazil depended on imports for up to 85 percent of its oil needs, the annual oil bill had never surpassed $1 billion and was no burden on the booming economy.

The 1973 oil crisis turned the boom into a bust. By 1976, the oil bill had risen to $4 billion and continued soaring to the present $10 billion. These $10 billion accounted for almost half of the country's imports and ate more than half of the nation's export earnings.

At the same time the foreign debt rose to $80 billion — from $12.6 billion in 1973. *Production of cars and other manu*factured goods failed to reach growth projection goals and in many cases, like the automobile industry, there was an actual cutdown in output.

Unemployment became a problem and inflation soared back up to three figures, and the gross national product growth rate dropped to 4 percent. The Trans-Amazon Highway was abandoned, the Carajás project was postponed and there was even uncertainty whether Itaipu would be completed on time.

Although the rising costs of oil were to blame for a good part of the country's economic problems — one-quarter of Brazil's energy consumption is supplied by imported crude — economists argue that other *factors* such as rising costs of food as well as other raw materials and even manufactured goods are also to blame for *Brazil's and the world's recession.*

Ironically, Brazil's domestic petroleum industry fared better than any other as a result of the oil crisis. Even the much touted "energy war," announced by the federal government to defend the country from its dependence on imported oil, concluded that the short-term solution was an all-out campaign to find and pump all the potential oil reserves in Brazil. The idea is to provide time to switch the economy from a petroleum fuel base to alternative sources of energy.

Billions of dollars have been pumped into the Brazilian oil industry in the last decade, with the development costs of the offshore Campos permanent production system alone coming to $5 billion.

Until the early 1970s, Petrobras, the state oil monopoly, was making good profits in marketing the mainly imported crude. Oil exploration at the time was relegated to second priority because of the low cost until then of the Arab crude.

Fewer than 4,000 oil wells had been drilled in Brazil until 1973 and offshore the figure did not reach 100. In the United States there are years when 100,000 wells are drilled. It was just coincidental that

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Carajás Iron Ore Project Brings Reality to Amazon Dreams

BRASILIA — *The opening of the* mineral and future industrial heartland of the Brazilian Amazon has begun with the construction of the 890-kilometer (550-mile) railroad from São Luis, an Atlantic port, to Carajás, a true El Dorado.

Within four years, when the $4.5-billion project is completed, steel mills from the Ruhr to Japan will be receiving shipments of iron ore from the Carajas district, which has a currently measured reserve of 2.6-billion tons of 66-percent iron ore and a potential reserve of 18-billion tons.

In the same area in the state of Pará, between the Araguaia and Xingu Rivers, there are estimated to be 60 million tons of 43-percent manganese ore, 1-billion tons of 1-percent copper ore, and major *deposits of bauxite, tin, gold, zinc,* silver and chrome.

"The Carajás region, because of its spectacular concentration of mineral de*posits, is without doubt one of the great* geological anomalies of the earth," said Breno Augusto dos Santos, a 42-year-old geologist who first discovered the iron ore deposit in 1967.

This "anomaly," and other vast mineral deposits that are being uncovered beneath the jungle cover of the Amazon, are being counted upon by Brazil to provide export earnings that will pay off a foreign debt expected to reach $80 billion by the end of this year, and $100 billion by 1985.

One reason the Brazilian debt is so high is the political determination that has grown over the past three decades — since the establishment of PETROBRAS, the state oil monopoly, in 1954 — that basic resource development should be led by state enterprises, not by foreign investors. Since Brazil's huge energy, mining and agricultural project need more capital than can be generated within the country, foreign borrowing is necessary.

For the Carajás iron ore project alone, foreign borrowing of $1.49 billion, or 33 percent of the project cost, is now under way. A $304-million loan agreement was signed with the World Bank in August, followed by $500 million in loans from Japanese banks, steel mills, and suppliers. The European Economic Community will provide $400 million, the West German KFW *has agreed to lend* $130 million, and the U.S. Export-Import Bank $58 million, with other supplier credits and private bank loans *completing the package.*

The executing agency for the Carajás iron ore project is the state-owned Companhia Vale do Rio Doce (CVDR). It is already among the world's largest iron ore exporters from mines in Minas Gerais, which produced 60 million tons this year. When Carajás reaches full first-stage production of 35 million tons in 1986, Brazil will replace Australia as the world's primary iron ore exporter.

The project is expected to generate nearly $8 billion in net foreign exchange earnings by the year 2000 on the basis of *35 million tons of export annually,* and would generate $21.5 billion by 2010 if production increases to 50 million tons a year in 1995, as is planned.

Vast Resources

The Carajás iron ore project has a relatively high initial capital cost (about $100 per annual tonnage) because of the expensive railroad being cut through the dense, river-crossed tropical forest. But the cost is acceptable because the railroad is expected not only to provide access to vast mineral resources, but also to open up industrial and agricultural-forestry development, promoting settlement of the region.

Recent discoveries of bauxite in the Amazon region have pushed up Brazil's *estimated reserves to 4.5-billion tons,* which ranks third worldwide behind Guinea and Australia.

The electricity needed to convert this *bauxite into alumina or aluminum* will come from the Tucuruí hydroelectric dam on the Tocantins river, between Carajás and Belém, at the mouth of the Amazon. When Tucuruí begins generating at initial capacity of 4,000 megawatts, it will supply two major plants near Belém designed to produce 320,000 tons of aluminum and 800,000 tons of alumina a year by 1988.

The combination of a modern, electrified railway and cheap energy will accelerate development of several other projects in the Carajás region, some involving joint venture investments with West European, Japanese, and U.S. companies. These include a copper concentrator, a ferro-manganese alloy project, several tin separators and a bauxite project at Pergominas. The power also will help mechanize the Serra Pelada gold mine south of the Carajás mineral center that holds *an estimated 100 tons.*

The railroad, which will have its central junction at Maraba on the Araguaia-Tocantins river system, is now laying track *over which two trains made up of* three locomotives and 160 ore cars will carry 30,000 tons a day to a deep water port near São Luis. The port is designed *to handle ships up to 280,000 tons* deadweight.

The return trip will bring in all heavy supplies that will be required for mine development, town construction, forest clearing, roads and industrial projects.

The prospect of this penetration into the Amazon of industrial civilization, and the flood of migrants from other regions of Brazil that this may unleash, has alarmed ecologists who fear for the Amerindian natives who still live in the forests, and even for the forests themselves if slash-and-burn land clearing begins.

Eliezer Baptista, president of CVRD, is sensitive to this problem for the Carajás area, and in the past has refrained from developing rich tin deposits in the western Roraima area populated by some 20,000 Yanomami Indians, one of the largest indigenous groups in Brazil, to avoid destroying their habitat.

For the Carajás region, CVRD has set up a scientific environmental advisory group, and has entered into an agreement with the Brazilian government's Indian protection agency for a $13.6-million project that is supposed to help 4,500 Amerindians in the region keep their reserve lands against invading land speculators and squatters. This project is included in the World Bank loan.

The problem of land conflicts between ranch and plantation owners, migrant settlers, and Indians in invaded reserve areas already is so serious in the newly opened regions of the Amazon *that Brazil's Roman Catholic* bishops

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Arms Industry Rivals Chief Export Sectors

By Henry Johnston

RIO DE JANEIRO — Officials here expect Brazil's arms industry to soon rival such foreign exchange earners as coffee, soybeans and iron ore.

With about $700 million in arms sales this year, Brazil is rated by Sweden's International Institute for Peace as the largest Third World supplier of arms to other developing countries.

Brazil has something for the armed forces of any country — army, navy or air force. It offers armored cars, missiles, artillery, advanced machine guns, ammunition, fighter planes, patrol and training aircraft, frigates, corvettes and patrol boats.

"The arms industry is the sector for the future, with emphasis on exports rather than domestic needs," said Antonio Santos, president of the National Confederation of Commerce. Brazil looks to arms exports to make up for the depression that has fallen on the automotive, electric appliances, textiles and other industries.

For some failing companies, arms look like the road to survival and, maybe, good dividends. Recently, Vigorelli do Brasil, a sewing machine manufacturer, went into receivership. To its creditors, it offered a plan for paying off debts by making light arms, especially the new Uru rifle for which a patent is pending.

Brazilian arms exports go to some 50 countries, mostly in the Middle East and Africa, as well as to Latin American neighbors. Washington might frown on some of the customers but, in a way, it was the United States that got Brazil started on its arms-manufacturing career by imposing humiliating conditions and restrictions on the sale of American arms to its ally in two world wars. In the 1960s, the United States refused to sell Brazil new jet fighters, claiming they were too sophisticated for the Brazilians.

Brazil wasted no time buying 16 French Mirages, rated then as the world's most sophisticated planes. But the U.S. then required that Brazil get a clean bill of health from the U.S. State Department on its attitude toward human rights before selling it American arms or training Brazilian personnel. The Brazilian government said it did not care whether the State Department report was favorable or not, ended its military alliance with the U.S. and sent the American Army, Navy and Air Force missions back home. After 1977, it started making its own arms without American help.

José Luis Whitaker, president of Engesa, the leading builder of armored cars, said Brazil's arm sales would total $700 million this year. The main Engesa plant located at São José dos Campos, is getting ready to produce its first model on caterpillar treads. It has been exporting three models that roll on wheels and which are named after poisonous Brazilian snakes. Production has quadrupled in four years.

The 12-ton Cascavel, now on its fourth model, and the amphibious Urutu lead the list. They proved themselves in the rough terrains of the Middle East and Africa, where most of the biggest buyers are. Iraq, a long-time customer, reportedly made good use of the Cascavel in its war with Iran, and is ordering more. Libya is said to have used the Cascavel and the Urutu in its invasion of Chad.

The Cascavel has power on all six wheels, which roll on bulletproof tires, and can race at 100 kilometers (65 miles) an hour. It comes equipped with a 90-mm. cannon, a machine gun and a rocket launcher. Accessories include radio, an infrared night-vision system and laser sights.

The Urutu can shoot from the water, carries a 90-mm. cannon, an Oerlikon 20-mm. cannon now made in Brazil, and a rocket launcher. It can also be used as an ambulance or a troop carrier.

The four-ton Jararaca — named after Brazil's most common poisonous snake — has four-wheel-drive, comes equipped with machine guns and is useful for reconnoitering. Engesa also makes three models of military truck.

The Brazilians supply video-cassette training films in the customers' language, and the armored cars are claimed to be simpler and easier to handle by Third Worlders than more sophisticated equipment.

Engesa is a private company and has about 100 engineers creating new weapons, methods and designs in a subsidiary research company. They are completing the designs for 105-mm. and 155-mm. cannon as well as anti-aircraft guns and missiles to equip their armored cars. Engex, another subsidiary based in Salvador, Bahia, makes the 90-mm. cannon and the transmission suspension that is said to give the cars greater mobility. Engesa has still another specialized subsidiary for marketing its products. Prospective clients are taken for demonstrations at proving grounds near São José dos Campos and on the Marambaia Peninsula, near Rio de Janeiro.

Another manufacturer, Bernardini S.A., which makes safes and bank vaults, is also going into the armored car and tank business. "We have a light tank," said Flavio Bernardini, director of the firm, "which has a 300-horsepower engine and is equipped with a 90-mm. cannon." The same firm makes bridges and is credited with modernizing the American M-41 tank.

Avibras, another firm located in São José dos Campos, makes missiles, including the new, heat-seeking Piranha. The company produces air-to-ground and ground-to-air missiles designed by the government's Aerospcae Technology Center, which is in the same city. The new SBAT missile is said to be the first step toward a Brazilian version of the French Exocet, which Argentina used to sink British cruisers in the Falklands war.

In addition, Avibras makes bombs and its own propellant for its missiles. The field is so promising that Avibras is building a new plant heralded as "the world's biggest missile plant."

When an Iraqi Boeing 707 landed at São José airport a couple of years ago, Brazilian officials had to deny reports that the plane came for a load of enriched uranium. That was one thing Brazilian officials said they did not have, but added that if they did, there was nothing to stop them from selling it. And Brazil does have large uranium reserves, which it hopes to exploit and sell.

For troops, the army's Imbel munition industry makes the widely used FAL 7.62 rifle, as well as machine guns and explosives. The state-controlled Brazilian Cartridge Company, which has agents in 50 countries, makes bullets and says its customers include Argentina, Australia, Bolivia, Chile, Colombia, Lebanon, Paraguay and the United States. Company President Libero Carroti said, "We compete in price and quality, but we don't compete with Eastern European countries because their price is political." In addition, the company produces bullets used by the machine guns mounted on the Brazilian Air Force's F-5 Tiger and Mirage planes.

Both military and commercial Brazilian planes are made by Embraer, a government enterprise also located in the arms industry center of São José dos Campos. Embraer President Col. Osiris Silva places high hopes on the AMX, a subsonic jet fighter being developed in association with Italy's Aer Macchi, which is providing the technology.

General José Magalhães de Silveira explained: "Brazil needs foreign exchange to continue its development. We have to export as much as we can. Why not war material?" The minister of foreign relations, Ramiro Saraiva Gueirrero, pointed out that "the percentage of Brazil's gross product used for defense is one of the lowest in Latin America. It hasn't reached 1 percent in recent years. The arms industry is the result of the country's industrialization."

Balance of Payments

(In Billions of U.S. Dollars)

	ACTUAL 1980	ACTUAL 1981	FORECAST 1982 I (Late '81)	FORECAST 1982 II (Early '82)	FORECAST 1982 III (Current)
Exports	20.1	3.3	26.7	23.0	22.0
- Imports	22.9	22.1	23.6	22.0	22.0
=Trade Balance	(2.8)	1.2	3.1	1.0	0.0
Service Balance	(10.1)	(11.8)	(13.2)	(13.2)	(13.2)
Repayments	(6.7)	(7.8)	(7.1)	(7.1)	(7.1)
Deficit	(19.6)	18.4	(17.2)	(19.3)	20.3
Loans	15.0	17.9	15.5	16.0	17.0
Investments	1.1	1.5	1.7	1.7	1.7
Increase (reduction) of Reserves	(2.6)	0.6	0.0	(1.6)	(1.6)
Gross Foreign Debt	53.8	63.9	72.3	72.8	73.8
Reserves	6.9	6.9	6.9	5.3	5.3
Net Foreign Debt	46.9	57.5	65.4	67.5	68.5

Shipping: An Economist at Helm Introduces Long-Term Reforms

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worth of ship exports annually to help meet that minimum target of 1 million dwt and $1 billion worth of starts.

Chronically strapped for ready cash, the government in Brasília and Sunamam lack the funds to finance outright the export of Brazilian-made ship bottoms. Interest equalization instead promises to pull the interest rates of a commercial loan down to the subsidized international industry standard if the foreign buyer provides the bank, thereby at least guaranteeing Brazil's competitiveness with finance conditions in the international market.

With the prospect of exports thus revived, Brazilian yards were out in force for Greece's Poseidon exposition in May. They had seen their own Riomar international shipbuilding fair — held last October in Rio de Janeiro — go by without a single foreign sale for lack of export financing and had simply skipped the latest Norwegian fair, too discouraged to show the flag.

Because of the relatively spartan support of interest equalization, shipyard directors who had not signed a new export order since December, 1979, by midyear had inked contracts for $36 million and were negotiating about $300 million more.

Exports are merely a supplement to domestic construction, but it is a supplement that Brasília would like to see continue to grow.

Export Earnings

Brazilian ship exports totaled $124.8 million in 1979, $98.9 million in 1980 and $178.8 million in 1981. Almost all of it was based on orders placed before export subsidies were temporarily eliminated in 1979, pulling the props from under Brazilian ships in the highly subsidized international shipping market.

Export earnings will decline at least temporarily now due to the dearth of orders in the interim. Nevertheless, with the new export finance plan, shipyard owners — and Brasília — are looking forward to a revival of foreign sales.

"This way, we finance only 85 percent of $600 million worth of starts rather than of $1 billion worth," said Sunamam Director Elcio Costa Couto, explaining the attraction of $400 million worth of ship exports for the government's pinched pocketbook.

The $1 billion, of course, is Sunamam's minimum level of annual starts promised last year to the industry. The federal maritime agency finances 85 percent of local purchases, while shipowners pay the remaining 15 percent down.

Mr. Couto, an economist, banker and government planner in what formerly was a bailiwick for retired admirals, took Sunamam's helm two years ago after its near bankruptcy. Among other sector reforms introduced since then, he is the author of the interest equalization scheme for export financing.

Obviously, Brazilian shipbuilders can make no claim to tranquility, despite their relative good fortune amid the current world shipbuilding crisis.

Nevertheless, a continued flow of orders is almost guaranteed to them, by economic pragmatism and the growing needs of the Brazilian merchant marine. Incessant demands on Brazil's limited investment capital make such intermittent crises as those outlined above inevitable, but the call for new starts will continue as long as Sunamam and Brasília can find ways to finance them.

Domestic shipping capacity is both the carrot and the stick of Brazil's naval construction industry. In the words of a top government official, local shipbuilding "is the fastest way to reduce chartering of foreign ships and the one that requires the least marginal investment."

Considering Brasília's push to increase exports and reduce capital outlays in order to ease the country's precarious balance of payments situation, growing export volume and the need for more and more ships will continue to provide orders for local yards for a long time to come.

Approximately 90 percent of the 5.3-million dwt delivered by Brazilian shipyards between 1974 and 1981 went to domestic owners.

The Brazilian fleet, which totaled only 1.4-million dwt in 1964 and 2.6-million dwt in 1972, by the end of last year encompassed 9.3-million dwt, a 263-percent increase during the course of the last decade.

State-owned shipping companies account for a great deal of the growth and the demand for new starts.

Charter Use

FRONAPE, the maritime transport arm of state oil company Petrobras, alone added more tonnage to its fleet last year than any other commercial fleet in the world (six new ships totaling 312,000 dwt, four of them built in Brazilian yards).

With a capacity of 4,844,000 dwt at the end of 1981, FRONAPE is the largest commercial fleet in the Southern Hemisphere and is regularly recognized by the Ibero-American Merchant Marine Institute as the fastest growing South American fleet. That performance should be maintained during the next couple of years, as the oil company fleet is scheduled to incorporate another 15 new ships already ordered, 12 of them from local yards.

Nevertheless, a major portion of the ships flying the Brazilian flag are charters, representing a significant contribution to Brazil's chronic balance of trade deficits.

Charter payments totaled $975.4 million in 1980 alone, approximately one-third of the trade deficit that year.

Charter outlays are being reduced slowly by an aggressive program of expanding owned tonnage — helped by a declining trade volume during the last couple of years as a result of the recession.

Charter expenses were cut 17 percent to $807 million in 1981 and were down almost one-third during the first half of 1982 compared with the same period last year.

(Diminished charters increased the participation of owned bottoms for FRONAPE alone from 34 percent in 1980 to 42 percent in 1981.)

Sunamam figures through May showed charter payments of $254 million, down 31 percent from last year.

That was attributed in part to the delivery by Brazilian yards of 28 new ships totaling 339,828 dwt to the domestic fleet, boosting it to a total 9,129,510 dwt.

It also was helped by a 4-percent decline in general cargo movement through Brazilian ports during the period (exports down 3 percent and imports 5 percent).

Barring an international economic revival strong enough to spur Brazilian trade growth to paces faster than its expanding domestic shipping capacity, the trend toward less and less chartering — both as a percentage of total capacity and in total tonnage — should continue for the foreseeable future.

Nevertheless, charters still accounted for more than half (53.5 percent) of the 29.9-million metric tons of cargo moved by the Brazilian fleet through May this year. Despite their diminishing importance, Brazil will remain a lucrative outlet for charter owners for some time.

Growth of the Brazilian Merchant Fleet 1964-1981

(in deadweight tons)

Year	Capacity	Increase (%)
1964	1,424,472	—
1972	2,559,679	79.7
1974	4,109,843	60.6
1975	4,604,020	12.0
1976	5,097,578	10.7
1977	5,612,719	10.5
1978	6,175,915	10.0
1979	7,310,685	18.4
1980	8,362,835	14.4
1981	9,281,869	10.9

Source: National Merchant Marine Superintendency (Sunamam)

Brazilian Shipbuilding, 1964-1981

(In Deadweight Tons)

Year	Launched	Delivered
1964	28,440	31,180
1974	553,690	320,400
1975	436,550	464,500
1976	438,610	496,220
1977	677,720	436,435
1978	1,103,940	554,850
1979	755,350	1,090,090
1980	1,059,120	1,052,150
1981	639,086	919,034

Source: National Merchant Marine Superintendency (SUNAMAM)

BRAZIL

industrial development

Servicing of Massive Public Debt Remains Obstacle to Resurgence

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markets, hit by recession, where Brazil has been selling increasing amounts of steel, manufactured goods, and sugar. U.S. manufacturers have begun pressing claims against Brazil's subsidies and have obtained countervailing duties on shoes, steel and other products.

A complaint is being heard on frozen orange juice, which earned Brazil over $600 million last year.

Highly subsidized French sugar exports, European *Economic Community* tariffs on Brazilian industrialized agricultural exports, such as cocoa and soybean products, and U.S. sugar quotas have cost Brazil at least $500 million in export earnings, according to officials here.

Selfish Attitude

Minister of Finance Ernane Galveas said in an interview that the attitude toward Brazil of the major industrialized countries, including Japan, was "very short-sighted and selfish".

"The major problem we face is the debt service, and we cannot increase our imports from the industrial countries unless we can export to them. They have to recognize the very special needs of the developing countries," said Mr. Galveas.

He said the debt problem and low commodity prices for most exports by the developing countries were also heavily influenced by high interest rates. "The interest rates have put a brake on demand and reduced prices because no one wants to maintain stock at that financial cost," he said.

But interest rates in Brazil for all but favored borrowers, who receive officially subsidized credit for exports and agricultural production, are far higher than in other industrial countries. In part, this is because the Central Bank is borrowing so heavily in domestic capital markets to cover deficits.

There is also an official policy of high interest rates here to force private borrowers to go abroad for money, thereby bringing in more dollars, even to finance local costs.

Currency Overvalued

Some efforts have been made to reduce deficit-causing subsidies. The most notable success has been in eliminating an exchange loss in petroleum imports. But it is not clear that Brazil can carry out an aggressive export policy without credit subsidies — unless these are substituted by more rapid devaluation of the cruzeiro.

Devaluation, however, has lagged behind internal costs and the cruzeiro is overvalued in relation to the U.S. dollar.

In 1979, at the beginning of the Figueiredo government, a 30-percent "maxi-devaluation" was put into effect and export subsidies were eliminated, under the terms of an agreement with GATT.

But after the second round of oil price increases shattered Brazil's import account, inflation rose sharply, and subsidies were restored in late 1980. The deficit generated by these subsidies and state enterprise losses is now recognized as the major cause of inflation.

Mario Simonsen, a former minister of finance, who is critical of the present confusing combination of changing policies, said control of inflation requires that all spending be approved in a central budget by congress.

Off-Budget Operations

"Most of the deficit now grows out of off-budget operations through the Central Bank's monetary operations, which pays for subsidies and other favors," Mr. Simonsen said. "It changes from day to day, and not even they know how much it is until the end of the year."

Inflation — and its effect on the cost of living — appears from public opinion polls to be a major issue *in the elections.*

President Figueiredo's popularity fell 13 percent on the Gallup poll during the May-to-July period that included an 8-percent increase in living costs in June and Brazil's World Cup loss to Italy.

Financial markets seem to sense that there will be a post-election change in policy. Auctions of treasury notes have been unable to sell all offerings at the Central Bank rate of 160 percent interest. Large lenders are demanding interest rates of 170 percent from banks.

"We are headed for one beautiful recession after the election," said Silvio Basile, chief editor of Gazeta Mercantile, Brazil's leading financial newspaper.

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Export-Import Duality: Strength, Contradiction

Mr. Baer, a professor of economics at the University of Illinois, is the author of "The Brazilian Economy: Its Growth and Development."

By Werner Baer

RIO DE JANEIRO — Brazil's rapid industrial growth has been promoted by *import substitution behind protective* walls to serve a market of 120 million people. It also has expanded outwardly through intensive export promotion to offset chronic balance of payments deficits.

The duality of Brazil's industrial structure, built on vast mineral and agricultural resources, is a source of strength and, at the same time, of contradictions between the demands of internal growth and external markets.

Brazil's exports and imports today have a large degree of geographical diversification. The same can be said for the origin of multinational corporations that have invested capital through subsidiaries in the country. Likewise, Brazil's external debt is spread across a wide spectrum of international banks.

This multiplicity of international contacts increases Brazil's strength in future bargaining for a substantial share of the world market as a new industrial country.

Import Substitution

Brazil's industrial sector has grown enormously since the early days of import substitution in the 1930s and the period of developing a deliberate import substitution strategy in the 1950s. By the early 1980s, industry accounted for about 37 percent of the national product and employed about 15 percent of the economically active labor force. During periods of high economic growth, such as the 1950s or the 1968-1973 period, industry was the pacesetting sector.

Brazilian authorities past and present have stressed import substitution as their main goal. This policy — promoting domestic production facilities for goods that were previously imported — has given the country's industry a diversified structure. It includes the traditional textile and food and beverage sectors, a large steel industry, automobiles (more than 90 percent of value added *is produced within Brazil), petrochemicals*, capital goods, a great variety of consumer durables and export-oriented agro-industries.

In 1980, prior to the worst recession in industry since 1965, Brazil produced 1.2 million motor vehicles, 27.2 million tons of cement, 15.3 million tons of steel and about 70,000 tractors.

The present ownership pattern of the country's industry is the result of the policymakers' stress on rapid industrialization. Since the domestic private sector was not financially and technologically strong enough to start new firms, especially in the technologically advanced sectors, heavy reliance was placed on both multinationals and state enterprises.

Foreign firms are dominant in such dynamic industries as automobiles, pharmaceuticals and electric machinery. Domestic private firms control clothing, food, paper and furniture production. State firms are the leaders in chemicals and petrochemicals, steel, mining, aircraft production and public utilities.

Brazil's impressive industrial growth has brought with it a set of difficult problems related to imports and exports, employment, technology, multinationals, dependence on the state and income distribution, which remain unresolved by the country's policymakers.

• EXPORTS: Since the mid-1960s, Brazil's leaders have been conscious of the fact that import substitution was not a permanent solution to the country's growth. Import substitution has not made the country economically independent of the rest of the world; it has only changed the nature of the dependence. Instead of having to import finished consumer goods, the country now depends on the importation of raw materials, various types of semi-finished products and sophisticated capital goods.

To pay for these crucial imported inputs to the industrial park, it became necessary to increase Brazil's export earning capacity. This was achieved by diversifying exports, which consisted in part of exporting manufactured goods. Both fiscal incentives and subsidized credits were used to induce domestic and international firms to export.

As a result, Brazil experienced extremely high export growth rates in the late 1960s and throughout the 1970s, and by the early *1980s* more than 50 percent of Brazil's exports consisted of industrial goods (including textiles, shoes, autos, capital goods and airplanes).

By the second half of *the 1970s, the* United States placed considerable pressure on Brazil to eliminate its export incentive program, claiming that it violated the General Agreement on Tariffs and Trade.

Brazil at first agreed to a gradual *dismantling* of tax incentives and subsidized credits. Then, in December, 1979, it eliminated the entire program, coinciding with a major exchange devaluation. But *incentives* were reintroduced during 1980-1981, producing renewed friction with the United States and other trading partners.

The principal dilemma facing Brazil's government is that only a substantial devaluation of the cruzeiro can counterbalance the elimination of export incentives. Without devaluation at a rate similar to inflation, *the cruzeiro becomes overvalued*, as it was in mid-1982. By then, however, the country's inflation rate was at a three-digit level. A drastic devaluation would add further fuel to inflationary forces. Also, given the large foreign debt, a drastic devaluation would be a great financial burden on private and state enterprises. A gradual, but accelerated, rate of mini-devaluations seems likely.

• EMPLOYMENT: Since the early 1950s, Brazil has experienced a large rural-urban migration. One serious socioeconomic problem has been the lack of adequate job creation in urban areas. The performance of industry in this respect has been disappointing.

Some economists claim that the low labor *absorption rate was due to distorted factor prices* — an artificially low price of capital that resulted from investment incentive programs, and artificially high labor costs relative to labor availability that induced firms to select capital-intensive production processes.

The fact is that much of the industry installed in the 1950s was based on secondhand equipment and until the 1960s many of the traditional industries (textiles) were still using equipment from the early part of the century. Even then, labor absorption was low.

The opening of the economy toward exports in the 1960s and the 1970s resulted in a modernization of industry. Few firms these days are interested in secondhand machinery. The latest technology is sought in order to compete in the international market. Thus, while resolving the export problem, modernization worsens the employment problem.

• NEW TECHNOLOGY: There is an increasing preoccupation by various sectors of Brazil's society with Brazilian industry's technological dependence on the outside world. The purchase of technology costs the country large sums of foreign exchange each year.

Multinationals do little technological research in Brazil, while Brazilian private firms have little capacity to carry on such activities. It will be up to state enterprises and state-supported research institutes to produce new technology. A state program already begun in the computer and data processing field will be important for *increasing the country's bargaining strength in* the international technology market.

• MULTINATIONALS: Since many leading industrial sectors are dominated by multinationals, Brazilians worry about the implications of this phenomenon on the functioning of their economy. Production, investment, marketing and other key decisions are made in the multinational's parent *office. Such decisions are presumably made* with a view to optimizing the general world situation of the multinational. What is good for this firm, however, is not necessarily optimal for Brazil.

This is especially true of multinationals with a considerable degree of worldwide vertical integration. For example, many Brazilian subsidiaries produce semi-finished products *that are exported to other plants of the* same firm. In times of world recession, reduced production might be planned more according to the best interests of the international firm rather than to the needs of Brazil, causing a greater than proportional decline of output and employment in Brazil. There are, of course, ways for Brazilian authorities to influence the behavior of multinationals *within the nation's borders — like* tax incentives or joint ventures with state enterprises.

• DEPENDENCE ON STATE: The large presence of the state in directly productive activities like steel and petrochemicals also extends into the field of credit and capital financing, a fact felt by the private Brazilian sector.

Most Brazilian enterprises are family firms. Despite various government incentives, these enterprises have not opened up, and there is no tradition of raising capital for expansion through stock issues. Also, due to past inflation and the refusal of private firms to issue indexed bonds, there exists little private borrowing in capital markets for long-term financing.

Thus Brazil's private firms have to rely either on retained earnings or on long-term government credit to expand production of facilities. The latter has usually been furnished by the National Bank for Economic and Social Development's (known as BANDES) subsidized interest rates. As the commercial banking system also is dominated by government banks, the private sector's reliance on the state is extremely strong. This situation has restricted the private sector's independence.

A number of industrial sectors depend on state firms as customers and/or as suppliers of inputs. For example, more than 70 percent of Brazil's capital goods industry's sales go to state firms. Thus, when the government decides to drastically curtail its investment activities — as in 1981-1982, this industry undergoes a deep recession. Often state firms lag in paying their bills, which places these firms in difficult circumstances, as they cannot take legal actions against a state entity.

The state firm is often a supplier of crucial inputs to the private industrial sector. Here the problem is often the lateness of delivery, forcing firms to have larger inventories or to pay something extra to insure *prompt delivery*. Both methods raise production costs.

The Brazilian industrial system has yet to develop institutions to limit abuses resulting from a large state presence. There has been much advocacy for "privatizing" the economy. It is doubtful, however, if this is feasible in the short or medium-run. There are few domestic private groups that have the financial means to buy up the huge state enterprises or banks, even if they were for sale.

It also can be argued that those who have the funds might best spend them on the development of new undertakings. In any case, a mixed economy is here to stay.

• INCOME DISTRIBUTION: The increasing concentration of Brazil's distribu*tion of income in the last 30 years is, in part*, due to industry. Since that sector has been the country's pacesetter and since its capital to labor ratio is very high, its contribution to growth has been biased toward the non-labor factors of production. This is true even though labor's wages in industry — especially the more modern firms — have been higher than average wages in the country.

This raises a couple of basic questions. First, does the high level of income concentration limit the expansion of industrial production? The sheer size of Brazil would tend to lead to a negative answer. Even if 20 percent of the population gets 65 percent of the national income, this leaves a large market in absolute terms — that is, a market of about 27 million privileged customers. In addition, there also are the export markets to consider.

Second, would a drastic redistribution of income change the country's demand profile to such an extent as to make it incompatible with the productive profile built up in the past? Much research remains to be done to give a precise answer to this question. Reducing the income of the upper income classes and benefitting the lower 40 percent would raise the demand for such goods as textile and probably lower the rate of expansion of sophisticated consumer durable goods. Other industries — like capital goods, steel, construction — might be less affected, as basic infrastructure investment would presumably go on. Even the consum*er durable goods industry might not be in* dire circumstances after an income redistribution program, as more of its goods could be exported.

Brazil's industry needs both an internal and an external market for its future growth. The former already exists even under present circumstances of a highly concentrated income distribution. A greater degree of equality should reinforce the dynamics based on a large internal market. It would be mistaken, however, to neglect the foreign market for industrial products. This is not only necessary to amplify even more the effective demand for the output of the industrial sector, but to earn the foreign exchange necessary to buy crucial imported inputs.

Steel: Commitment to Expansion Fuels Search for Markets

By Bill Hieronymus

VICTORIA, Espirito Santo — With its expansion already committed and its projects nearing completion, Brazil will soon have trouble finding a market for its steel, which is produced in some of the largest plants in the world using the latest technology.

In the developed world, Europe, the United States and Japan have ample steel-making capacity even in boom times, and in the developing world — a much smaller market — giant steel mills are going up in countries such as Venezuela, Mexico, Nigeria and South Korea.

When Brazil — whose output is already beyond the needs of its internal market — reaches full capacity, it will have to export at least 40 percent of its production, according to a recent estimate.

The market-choking capacity came about partly due to Brazil's dream of becoming a great power by the end of the century, and having one of the world's largest steel industries was a key item on its list.

Industry officials are quick to point out that much of the capacity is designed to replace imports. Even assuming a booming domestic market, however, the new mills all have large parts of their output destined for export.

Net Exports

In 1979, for the first time in its history, Brazil became a net steel exporter although the country's economy grew by a hefty 6.8 percent that year. With 2.7 percent negative growth in 1981 — the first time since World War II that Brazil did not register positive growth — and prospects for flat growth only in the coming years to confront current account deficits, domestic demand was likely to fall far short of projections made during the heady days of double-digit growth rates.

The 1974-1979 National Development Plan under former President Ernesto Geisel projected that Brazil would produce 22 million metric tons of steel in 1979. Fortunately, that goal was scaled down, even though it was below the 25 million tons of steel planned for 1985 — or even 1980 — by earlier administrations.

What happened was that Brazil's steel production rose to 15.3million tons in 1980 — a year in which the economy grew almost 8 percent from 1979's 13.8 million tons — before beginning to decline. In 1981, output was 13.2 million tons and it continued to fall this year. According to the official Brazilian Steel Institute (IBS), steel production for the first half of 1982 fell by 13.9 percent to 6.2million tons from 7.2 million in the first half of 1981.

The fall in output, resulting from the drop in demand, came as the IBS estimated that the industry would have an installed capacity of over 17 million tons this year.

The National Council of Non-Ferrous Metals and Steel (known as CONSIDER) last month outlined the reasons behind the decline in domestic steel consumption and came up with a dim outlook overall for any significant upturn. Only the automobile industry — which has not lived up to expectations for its recovery this year — and shipbuilding presented significantly optimistic perspectives, CONSIDER said.

But civil construction, packaging and capital goods — all major steel-consuming sectors — have been depressed and show no immediate signs of recovery, the governmental body said.

The result of overcapacity expanding in a soft market was keenly reflected in the companies' yearly reports. Companhia Siderurgica Nacional came up with a net loss of 1.07 billion cruzeiros — or about $11.5 million — in 1981. Companhia Siderurgica Paulista, the São Paulo-based state steel company known as COSIPA, was $22.8 million in the red last year. These relatively modest losses were expected to grow this year with the continued increase of production despite the dropping demand.

And the worse is yet to come.

The Companhia Siderurgica de Tubarão's giant steel mill nearing completion at this port city 418 kilometers (300 miles) north of Rio de Janeiro has yet to produce its first slab but is expected to begin operation in early 1983. CST — of which 51 percent belongs to the Brazilian state steel holding company SIDERBRAS and 24.5 percent each to Japan's Kawasaki Steel Corp. and Italy's state-owned Finsinder steel company — is expected to initially produce 3-million tons a year, a figure projected to eventually grow to 12million tons annually.

But where will all the steel go? CST officials said that according to the agreement with the Japanese and Italian partners, each would place half of the initial 3-million-ton output in their home markets. "We will export part of our share," explained a CST official, because "Brazil does not have the capacity to absorb another 1.5 million tons of steel slabs a year." This meant that the new $3-billion facility would soon start to try putting at least another 1.5 million more tons of steel on world markets.

Value-added Products

The Tubarão mill is part of the Brazilian push for "value-added" exports, whatever the product may be — soybean meal instead of soybeans, cocoa butter instead of cocoa beans, aluminum products instead of bauxite and steel, or, in the case of Tubarão, semifinished slabs instead of iron ore.

CSN, another part of the SIDERBRAS state complex, is putting the final touches on completing the third stage of its expansion plan, which will give it a total output of 4.6 million tons, up from 2.5 million tons.

In the interior state of Minas Gerais, another giant state steel company project, Acço Minas S.A., is also slated to start production in 1983 with an initial output of up to 2 million tons.

The original budget of Acço Minas was $3.4 billion, but rose to $5.1 billion, according to Moacelio Mendes, president of the company of which 81 percent belongs to SIDERBRAS. Mr. Mendes said the increase was a result of installation delays and subsequent increases in financial costs.

Such delays are endemic in the expensive state steel projects, due mainly to diminishing demands. They cannot be stopped, however, because of their size and the resources already committed, and the delays raise the costs borne by both foreign capital and local cruzeiro financial markets.

In 1981, SIDERBRAS closed the year with an external debt of $5.8 billion, almost 10 percent of Brazil's year-end foreign debt and 22 percent higher than the earlier comparable yearly figure. Of the $5.8 billion, $1.01 billion was held by SIDERBRAS, with the remainder to component state companies such as Acço Minas and CNS.

In addition to growing protectionism in a soft world economy, Brazilian steel faces other difficulties in foreign markets. The cruzeiro has once again become overvalued in relation to the U.S. dollar as a result of Brazilian inflation, and the strengthening of the dollar vis-a-vis major European currencies has put Brazilian manufactured exports such as steel at a competitive disadvantage. And industry sources add that Brazil suffers a freight cost disadvantage in comparison with other key exporting countries.

The overall problem of excessive capacity is recognized at government level, and CONSIDER Steel Coordinator Olinto Villas Boas says: "If Brazil opted for a policy of reducing its industrial production, it would be natural for the steel industry to have to bear the cost."

But how to break this cost and how to make it disappear are questions that defy easy answers.

Steel Production, 1980

(crude steel equivalent)

State-owned Group	000 tons	Percent
CSN	2,440	15.8
COSIPA	3,002	19.5
COFAVI	156	1.0
COSIM	151	1.0
PIRATINI	168	1.0
USIBA	255	2.0
USIMINAS	3,259	21.1
Sub-Total	9,411	61.4
Private Group		
ACESITA	479	3.1
Belgo-Mineirs	874	5.7
COSIGUA	673	4.4
Mannesmann, S.A.	723	4.7
Others a/	3,179	20.7
Sub-Total	5,928	38.6
Total	15,339	100.0

Comprising more than 30 small private companies.
Source: CONSIDER

Aviation: High World Sales Bring Problems

(Continued from Page 7S)

Bandeirantes and two Xingus. Other customers for EMBRAER aircraft include Finland, Belgium, Denmark, Australia, New Zealand, Papua-New Guinea, Fiji and nine Latin AMerican countries. The Xavante, a single-engine jet military trainer, built by EMBRAER under license from Italy's Macchi Spa, has been sold to Togo, Paraguay and other developing countries. The Brazilian air force has also purchased 150.

Government Link

The origin of this industry is closely linked to the research arm of the Brazilian air force, and the present aerospace industrial center at São José dos Campos, northeast of here, is heavily staffed with engineers and skilled workers who began their aircraft development under government contract.

EMBRAER got its financial start through a law that allowed companies in Brazil to apply one percent of their corporate income tax to purchase EMBRAER stock. Almost 200,000 individual firms now own 90 percent of the company's stock.

The original Bandeirante was designed at the air force research center before EMBRAER was founded in 1969, and the commercial model was initially purchased by two Brazilian airlines. The first foreign sales were to Uruguay in 1975 and to the Chilean army in 1976.

THe big push into international markets came in 1977, when the Bandeirante was displayed at the Le Bourget Air Show in Paris. Official certification of the aircraft for commercial airlines was soon obtained in France, Britain and United States, opening up the major markets.

The Bandeirante was designed initially by the Brazilian air force to replace the old workhorse DC-3 of the transport command that flies into every remote jungle corner of this huge country where short, unpaved runways require a rugged plane with low maintenance.

It was only discovered later that this relatively small turboprop aircraft with low operating costs in relation to jets also was a winner on short commuter runs of local airlines in developed countries. This accounts, in part, for the success of sales of Bandeirantes to U.S. buyers.

Financial Incentive

But there is an additional financial incentive. The Bank of Brazil provides unbeatable credit terms to buyers of EMBRAER commercial aircraft, with annual interest rates as low as 7.5 percent for up to 10 years. That is much lower than current commercial bank credit under which competitors, such as Fairchild, sell similar aircraft.

In addition to its commercial and military aircraft, EMBRAER moved into the big Brazilian market for private and executive aircraft. Between 1964 and 1974, Brazil had imported 2,485 two-to-four seat aircraft, almost entirely from U.S. manufacturers, with Cessna the leader.

With the desire to replace these imports by locally manufactured airplanes, Brazil's economic planners supported EMBRAER by notifying foreign suppliers that the Brazilian market would be closed to them unless they entered into a joint production, technology-transfer agreement with EMBRAER.

Only Piper, which had 24 percent of the Brazilian market, accepted the terms. The two types of EMBRAER-Piper aircraft now

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BRAZIL

Industrial development

Carajás Project Brings Reality To Amazon Development Plans

(Continued from Page 7S)

have a special Indian and land-title mission and President João Baptista Figueiredo is creating a cabinet-level post to deal with land disputes as a "security" problem.

The mobility of land-hungry migrants into the Amazon region has been increased by major highways.

Highway Project

These include the Brasília-Belém paved highway that provides access to the Araguaia-Xingu region from the poor, drought-prone northeast where 40 million people live, and the 1,900-kilometer (1,175-mile) road built by the army from Cuiaba, in Mato Grosso, to Porto Velho and Rio Branco on the southwest flank of the Amazon, bordering on Bolivia.

Tens of thousands of settlers have moved in on trucks, and corn, soybeans and rice are pouring back as land is cleared and planted.

Gigantic projects, such as the Carajás iron mine and railroad, remind some critics of earlier grandiose development schemes that have ended in waste or disaster in the Amazon.

Examples that are sometimes given include the Guajará-Mirim-to-Porto Velho railroad built seventy years ago during the rubber boom in the Amazon.

It cost more than the Panama Canal.

But the 366-kilometer (227-mile) *track is now virtually* abandoned.

A more recent example is the Trans-Amazonian highway of 2,500 kilometers (1,550 miles) through the center of the empty region that had no economic feasibility to justify maintenance costs.

In some sectors, the jungle has grown back over the highway.

The World Bank and the other foreign lenders for the Carajás railroad, after exhaustive studies, are sure that this will not be another *Amazon fiasco.*

For one thing, CVRD has a strong reputation based on 40 years of experience in mining and metallurgy.

Previous Failures

Market studies to the end of this decade indicate currently depressed world demand for iron ore *will recover after 1985 to levels* assuring an economic return for high-quality Carajás ore.

Steel mills in West Germany, Italy, France, Belgium, Japan and Korea have already signed contracts with CVRD for Carajás iron ore beginning at 19.5 million tons in 1985 and rising to 24.65 million *tons in 1988, at a guaranteed price* that is expected to provide a profitable margin, although markets will have to be added for the full annual production of 35 million tons.

Nonferrous Metals

Equally important for the overall development of the Carajás region is the large internal market for some of the nonferrous metals that are going to be industrialized.

Brazil's balance of payments *problems* arise *to a large degree* from imports of industrial raw materials that are not produced internally.

Among these is copper, which requires $300-million-a-year in imports.

The Carajás deposits can reduce this bill sharply.

In aluminium, Brazil seems likely to become a very strong international competitor.

A large domestic market has to be supplied, so aluminum exports can be developed in large plants, with economies of scale, that have an assured domestic market for an important share of the product.

The availability of very cheap hydroelectric energy in proximity to readily accessible bauxite deposits and modern ports, are a strong advantage.

Already, the availability of energy is attracting Canadian, Japanese and U.S. investors, for joint ventures with CVRD and Brazilian *private companies.*

—JUAN de ONIS

Nationalist Sentiments Pervade Development of Rich Resources

BRAZILIANS have strong nationalist feelings about the underpopulated, resource-rich Amazon region.

Brazil's Amazon basin borders on eight of its neighbors. A regional pact has been signed for cooperation on economic development. Brazilians want to keep powerful, nonregional interests out of any direct control of resources in the area.

Breno Augusto dos Santos, a geologist who discovered the Carajás iron deposit, and is now in charge of the Companhia Vale do Rio Doce's mineral exploration unit, once worked for U.S. Steel. In a book entitled "Amazonia, Mineral Potential and Development Prospects," which Mr. dos Santos wrote last year, he expressed the prevailing Brazilian view:

"Control of the natural resources of a country is essential to assure its development and national sovereignty. A nation is not viable unless it has control of its territory, its energy resources and its mineral reserves. In an ever more troubled and overpopulated world, the developed countries, to assure their political and economic supremacy, will try by all means — including force, if necessary — *to control the natural resources, and sometimes the territory,* of less developed nations.

"To guarantee its development, Brazil must control its Amazon region because of its strategic situation. Although the state must have a constant participation, national entrepreneurs must be attracted to develop the mineral sector. Multinational capital should only be invited to take part when projects require capital, know-how and markets that cannot be found domestically. In joint ventures, controls should always be maintained over mines, and the state should have a majority wherever possible."

Automotive Industry Facing Up to Hard Times

SAO PAULO — The "engine" pulling Brazil's industrial development during the last two decades, the automobile industry in *the factory suburbs surrounding* São Paulo, has come to a grinding halt and is not expected to return to the 1980 production level before at least the middle of this decade. And there is little help this year from the formerly rapidly growing exports sector.

The plight of the industry was aptly summed up by Wolfgang Sauer, president of Volkswagen do Brasil, who attributed the drop in sales to the high level of interest rates, which is tied to the removal of controls on interest rates and the limitation of the expansion of credit.

Passenger Sector

A look at one segment, passenger vehicles, illustrates how exports have softened the sharp downturn in sales. ANFAVEA, *the acronym by which the Brazili*an auto industry trade group is known, lumps passenger vehicles in the total of 779,221 units, which also includes light commercial vehicles, trucks and buses. However, of the 779,221 total, 583,000 represented domestic sales of passenger vehicles, which were off 41 percent from 1980's total. But exports of passenger vehicles increased by 36 percent to 214,100 units in comparison to a year earlier. The net result was that total passenger vehicle sales — *domestic and exports* — were off somewhat more moderately, by a total of 30 percent.

External factors are responsible for both the dropoff last year in domestic sales and a more recent fall in exports. At the end of 1980, monetary authorities in Brasília reversed economic policy and freed interest rates, in large part as an effort to again encourage Brazilians to save and thus dampen internal demand. In 1980, the interest that a saver got on his account was far below inflation, with the result that consumers rushed to put their funds into durable assets — automobiles, household appliances and real estate — rather than allow the savings to quickly erode in a savings account.

An eventual freeing of interest rates worked. Brazilian savings accounts in 1981 earned a real rate of return after the year's 95-percent inflation. "Savings rather than spending became attractive," noted a Brazilian automobile industry specialist in citing this as a factor in the industry's downturn.

Monetary Policy

At the same time, the technocrats in Brasília imposed a restrictive monetary policy for 1981 — which has been further tightened recently — to make local cruzeiro credit scarce, thus forcing Brazilian companies and local units of *multinationals to borrow abroad,* all with the objective of encouraging the flow of Eurodollar loans to close out the country's balance of payments.

Just one aspect of this multifaceted restrictive monetary policy is keeping growth in cruzeiro loans to 50 percent, a figure that is also being applied this year with increasingly close policing by monetary authorities.

Restructuring of the economy — away from the automobile to agriculture — also represents a reaction to external factors.

Credit for Agriculture

Under the current economic regime of Planning Minister Antonio Delfim Netto, the government has opened the credit gates for agriculture. On the one hand, the push is designed to foster the production of larger crops for export. On the other hand, the emphasis is designed to encourage the production of more staples consumed locally, such as beans, in order to avoid imports.

Before the 180-degree shift in economic policy at the end of 1980, prices of automobiles as well as many other products were firmly controlled by a governmental body in Brasília. These controls were lifted early in 1981 for the automobile industry, and the producers began to rapidly increase prices — more than inflation — in order *to recover prior costs, which had* been suppressed by the controls. Thus the potential customer — already buffeted by the highest gap between wage increases and the inflation rate in recent years — was confronted with spiraling retail prices in a soft market.

Softening world oil markets notwithstanding, the Brazilian government has continued to increase retail gasoline prices in order to discourage consumption, adding another strong factor that is likely to continue to dampen auto demand in Brazil for the foreseeable future. The current retail price for gasoline in Brazil is 67 U.S. cents a liter.

Economic Restructuring

While the current (estimated as of Sept. 7) gasoline price — $2.54 a U.S. gallon — is in line with European prices, it is a shocker for Brazil and, in fact, represents another restructuring of the economy away from the once favored automobile industry.

In September, 1973, on the eve of OPEC-induced quadrupling of crude oil prices, Brazilian gasoline retailed for 41 cents a U.S. gallon, or in line with U.S. retail prices at the time. A reasonably good salary for scores of Paulistas might be 140,000 cruzeiros a month, or just over $9,000 a year, including the Brazilian 13th-month bonus salary.

All in all, the combination of loss in real disposable income, gasoline prices, scarce if not nonexistent consumer credit and soaring prices for the automobile itself has *had the import impact of removing* an important buyer in this developing country market — the first time buyer.

Volkswagen do Brasil, which held over 55 percent of the passenger vehicle market in the mid-1970s, has been particularly hit by the abrupt shrinkage in the lower end of the market. The company, Volkwagen's largest unit outside of West Germany, reported that its market share shrank to 44.4 percent in 1981 *from 46.8 percent for* 1980 and 50.2 percent for 1979. VW do Brasil still produces its Beetle in Brazil, a vehicle that has traditionally attracted the first time buyer.

General Motors Record

By contrast, General Motors do Brasil has been less affected by the economic factors hitting the industry as its products, while compacts by U.S. standards, are large in Brazil and go down well with wealthier customers. GM do Brasil, which in the mid-1970s had 15 percent to 16 percent of the Brazilian passenger vehicle market, said that its 1981 market share was 23.1 percent, up from 21.6 percent for 1980.

Forecasters were projecting that the industry would recover this year by 10 percent to 12 percent from last year's depressed results.

The modest projection is not going to be met, mostly because of the shrinkage of the foreign market, as ANFAVEA figures show.

Total production (all figures represent the number of units) were 390,333 from January *through June, 1982, and 423,735* for the same period of 1981, representing a decrease of 7.9 percent.

Domestic sales were 313,945 from January to June, 1982, and 298,378 for the same period of 1981, an increase of 5.2 percent.

Exports from January to June, 1982, were 89,039 and 113,063 for the same period last year, a decrease of 21.2 percent.

Total sales from January through June, 1982, were 402,985 against 441,411 for the same period in 1982, a decrease of 2.1 percent.

Trend Continues

Preliminary data for the month of July from ANFAVEA underscore that the trend continues. Domestic sales continue to show modest gains while exports continue to drop.

Early this year, ANFAVEA estimated that the Brazilian automo*bile industry would export* between 260,000 and 270,000 vehicles, up from last year's 213,000, for a total value of $2.7 billion, or up about 25 percent from last year's $2.15 billion.

What went wrong with exports? Brazil confounded many experts in 1981 by increasing exports in the teeth of a world recession. Part of this success was due to developing new markets. As an example, Brazilian total exports to Nigeria almost tripled in 1981 to $770.1 million from 1980's $271.5 million.

But these new markets, carefully cultivated with the assistance of Brazil's Foreign Ministry, have been collapsing in recent months. Nigeria, VW do Brasil's single most important market, closed its gates to automotive imports in March following serious foreign exchange troubles.

While there has been some recent relaxation of those import controls, the damage has been done, *regardless of what happens* between now and the end of this year.

—BILL HIERONYMUS

Hydroelectric Projects Push Growth Beyond Demand

By Diva Goncalves dos Santos and Sonia Barsocchi

SAO PAULO — Brazil is preparing to launch the operation of *a first group of generators* at its two largest hydroelectric plants now under construction — the Brazilian-Paraguayan Itaipu facility, with an ultimate capacity of 12,500 megawatts, and Tucuruí, with an 8,000 megawatt capacity, located in the middle of the Amazon jungle.

The Itaipu facility is destined to be the largest hydroelectric plant in the world while Tucuruí will be the fourth largest. In full operation, the two plants will increase Brazilian hydroelectric potential by more than 20,000 megawatts. Itaipu plans to begin the operation of its first three groups of genera*tors, with an initial output of* 2,100 megawatts, in February, 1983. Thereafter, Itaipu will go on stream according to the following *schedule*: 1984, *three units,* with a capacity of 2,100 megawatts; 1985, four units, 2,800 megawatts; 1986, four units, 2,800 megawatts; 1987, two units, 1,400 megawatts, and 1988, two units, 1,400 megawatts.

Difficulties, however, arising from the faith in the infallibility of the "economic miracle" of the ear*ly 1970s, accompany this huge* Brazilian energy development project. Technocrats in the electrical sector of the federal government confront a paradoxical situation where growth is outstripping limits realistically permitted by the current economic scene. The result is that today — without taking into account *the new hydroelectric* plants to come on stream next year — Brazil has an excess of electrical energy of about 2,500 megawatts, energy which is practically "thrown away" without returning *any profit to the sector.* Brazil earlier this year tried to interest Argentina in buying part of the excess electricity, including a portion of the capacity expected to be available next year with the start of operations at Itaipu.

On the eve of Itaipu's inauguration — construction will be concluded *this month* — the Ministry of Mines and Energy has adopted an expenditure cutback of about 10 percent of the budget approved this year, reducing it by 43.7 billion cruzeiros. The move prompted a slowdown in the construction of 15 hydroelectric plants under way in the country as well as two nuclear-powered and two thermoelectric generating plants.

Cutting back on Itaipu, however, is not so easy. The facility is almost untouchable as it involves bi-national government-to-govern*ment commitments* with Paraguay. But Itaipu has just been hit by a delay of six months in the installation of a 500 kilowatt transmission line, which is to transfer electricity from the facility to southeastern Brazil where the country's major industry is based. At the moment the power is unnecessary because of currently unused electrical energy.

The southeastern region (including the states of Rio de Janeiro, São Paulo, Minas Gerais and Espirito Santo) was the principal consumer of energy during the "Brazilian miracle" years. In 1981, however, it registered rates of growth *10 times inferior to* those attained in prior years. In 1981, the region recorded a growth in electrical energy consumption of only 1.7 percent over 1980.

Nationwide, growth was around *3.2 percent, far below the double*-digit rates that had once been registered and that had been expected last year as well.

After three months of tests, the Itaipu facility — which will now cost $14 billion, up $1.4 billion from the previous estimate according to an assessment made last month — will start to generate energy early next year in three turbines of 700 megawatts. Construction of the transmission line has been delayed by six months because of insufficient financial resources.

The bilateral agreement with Paraguay requires Brazil to buy

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Soft Markets Put Damper on Petrochemicals

By Charles W. Thurston

SAO PAULO — Brazil's petrochemical industry has been hard hit by the world recession, and long-planned investments for the country's third petrochemical pole now are being reconsidered due to soft internal and export markets.

The $1.6-billion complex in the south of Brazil will come onstream this fall at a time when the country's domestic demand, and even export markets, cannot justify the production. As a result, downstream investments for the petrochemical pole have gelled somewhat, and three of the eight second-stage projects have yet to be defined.

Brazil has been caught in the awkward position of building up its national petrochemical capacity with equipment scaled for rapid growth of demand, and subsequently forced to sell products at what one industrialist has termed "cost plus 10 percent" margins in order to maintain production until the national economy heats up again. The unforeseen drop in internal demand for petrochemical products began in 1981 as a symptom of the general downturn of the Brazilian economy, and although this is viewed as a temporary phase, hopes for another good year like 1980 may have to hold out a good while. According to one industry watcher, production from the third pole will not be domestically absorbed until 1986 or 1987.

Downstream Industries

The third petrochemical pole was conceived of in the mid-1970s when demand on the industry was growing nearly 20 percent each year. A program of onstream dates for the 450,000 metric ton per year ethylene cracker and its eighth second-stage downstream industries took form in 1979, and development went smoothly for two years.

Then, the Hansen Company withdrew plans for investing in the pole, having decided to purchase an existing poly vinyl chloride and monomer vinyl chloride facility in the state of São Paulo rather than constructing the proposed 170,000-ton facility at the third pole. Similarly hesitant, Oxiteno is reexamining its proposal for the production of 125,000 tons of styrene, 5,000 tons of propylene oxide, and 16,000 tons of propylene glycol, as is Proquisul its proposal for producing 60,000 tons of polystyrene.

The three downstream companies that will be in production by the end of 1982 are Polisul, with an annual capacity of 62,000 tons of high density polyethylene; Poliolefinal, with a capacity of 150,000 tons of low density polyethylene, and PPH-Compania Industrial de Prolipropilene, with a capacity of 50,000 tons of polypropilene. By 1984, Petroflex is scheduled to initiate operations with a production capacity of 140,000 tons of ethyl benzene, and 80,000 tons of synthetic rubber, and Petroquimica Triunfo will start up with 100,000 tons of low density polyethylene.

Brazilian Petrochemicals

The growth of Brazil's petrochemical industry is rooted in the development of the first pole at Cubatão, in the State of São Paulo, largely through the assistance of U.S. firms that sold equipment for the cracking of the nation's petroleum into basic products like styrene, low-density polyethylene and methanol.

The Brazilian government picked up interest in the late 1960s and formed Petroquisa, a chemical subsidiary of the state-owned PETROBRAS. In 1968, a Petroquisa company, Petroquimica União, started up production with an annual capacity of 360,000 tons per year of ethylene with the combined support of government, private Brazilian and private foreign companies.

Rising national demand for petrochemicals led to the creation of the second pole at Camacari, in the State of Bahia, under the direction of the state company Copene, with a central cracker that raised the country's ethylene production capacity to 800,000 tons and added 30 downstream industries. Investment for the second pole reached about $3 billion and provided for 2.5 million tons of products. Much of the technology for this pole came from a wider pool of suppliers, including notable support from Japan's Mitsubishi Chemicals.

COPESUL, the state company responsible for the third pole in Porto Alegre, State of Rio Grande do Sul, will add 420,000 tons per year of ethylene production capacity to the national total and will provide for a wide spectrum of downstream products through the eight still-planned second-stage downstream industries and an undefined number of third-stage plants. Technology for this pole came from diverse Japanese, U.S. and European sources but included a marked increase in participation by European suppliers, with sales from companies like France's Technip, KTI of the Netherlands and West Germany's Demag.

National Demand

The decision to install the third pole was a response to the rising internal demand for thermoplastics and elastomers, especially from markets like the automotive and domestic appliance industries. These two sectors registered reductions in sales in 1981 of approximately 60 and 50 percent respectively, which caused, in part, a dip in domestic petrochemical sales last year of about 25 percent.

When the third pole was conceived for filling national orders as well as cutting imports some $750 million annually, the Brazilians expected to sell significant quantities of products to the Argentines and the Chileans and other Latin American buyers. Now plans for an Argentine petrochemical complex have caused investors to reanalyze what were once considered ready export markets.

Although national demand dropped off in 1981 stocks, the industry as a whole minimized the year's loss by a rapid turn to the export market. Brazil managed to sell about $500 million in petrochemical products overseas in 1981, compared to the 1980 export total of $150 million, when internal sales were still strong.

Expanded financial assistance by the Bank of Brazil's export agency CACEX this year should help push exports up to the $600-million level. Much of the financial package for petrochemical exporters is directed toward firms just entering the international market, with an additional 27 companies slated to export this year.

Financial Support

The producers of the third pole will not only be supported financially in export efforts by banks and development councils but also by the government-owned PETROBRAS, which is responsible for supplying 1.5 million tons of primary naphtha each year to the third pole at subsidized prices and on financed payment terms, as well as PETROBRAS' export arm INTERBRAS, which will buy up excess production for export marketing. As a result, despite the soft market for petrochemicals now, a good portion of the production of the third pole is earmarked for export, as the facilities head toward full capacity production.

While export prices often dip far below national levels, some sources say to one-third of domestic prices, cutting profits, the option of exporting saves the industry from redlining and maintains critical production levels. Over the next few years, as the third pole increases production of low and high density polyethylene and polypropylene, they, among other products, probably will maintain a presence on the international market.

As the country's economy pulls back into line, these products will be absorbed internally, but not at a rapid rate. Optimistic estimates of the growth rate for the country over the next three years is of only about 5 percent. While first half 1982 sales were strong in comparison to last half 1981, estimates for the sector's growth still range between 7 and 12 percent.

While it is difficult to pin down a firm estimate of the country's total investment for 1982, it is generally considered that the petrochemical sector will receive less than the 1981 estimated investment of $2.1 billion. If the third pole does not continue to receive necessary funding, it could turn into "the country's biggest white elephant," according to one industrialist.

Of the $760 million spent on the COPESUL cracker about $200 million came from international sources, with the World Bank providing $85 million, the Inter-American Development Bank $78.5 million and the Bank of America $40 million.

The eight second-stage facilities planned for in the 1979 package will still require an additional $500 million in investment, although a determination of which projects will go ahead and how fast has not been made yet. COPESUL plans to maintain its 45-percent production capacity level for at least six months, and depending on market reaction, plans to increase production to a capacity level of 75 to 80 percent by 1984.

Steps to assure the functioning of the third pole, now being studied by PETROQUISA, a 57-percent shareholder of COPESUL, include the distribution of national low density polyethylene and polypropylene production to assure sufficient supply for the new facilities. Government measures being called for include a lowering of internal loan interest rates — now higher than international levels — or special subsidies.

Long-term Development

While the third pole may only bring more headaches to the industry on a short-term basis, long-term implications for the development of the region are good. With an annual production capacity of about 500,000 tons, the third pole will produce about the same share of the country's petrochemical products as the first two poles, and this activity is expected to generate 19,500 jobs directly and about 43,000 jobs indirectly for the Porto Alegre area.

Estimated tax revenues from the pole will bring $450 million to the state and federal coffers within the first five years of operation from one tax base alone. The net effect of the production of the third pole will be to help the south of the country regain its lost status as an important national producer. The south had slipped from a one-time 18 percent share of the country's overall production to about 7 or 8 percent in the last few years.

Another positive aspect of the development of the third pole is the increased degree of transfer of technology that is taking place. The third pole was planned after the advent of the 1973 petroleum crisis, and is more systematically laid out in technical terms than the other two poles. It has used twice the amount of Brazilian detailed engineering as in the second pole.

BRAZIL
industrial development

Energy: Search for Alternatives

(Continued from Page 7S)

PETROBRAS made the Campos offshore oil strike, the country's biggest hope, one year after the oil crisis, but it was no coincidence that Campos was delimitated and developed so rapidly and that strikes have since been made both offshore and onshore. For instance in 1976 PETROBRAS drilled 260 wells, while in the first half of this year alone the figure had doubled to 522.

Two years ago Brazil had 40 offshore rigs working on its continental shelf, and that was more than any other single country except the United States. More than 100 offshore wells a year have been drilled by PETROBRAS during the last five years, and PETROBRAS is not alone in this exploratory work. Five years ago the government took the politically risky decision of opening up the Brazilian basins to foreign oil companies under so-called risk contracts.

The results of this investment in money and discoveries have not been spectacular by North Sea or Gulf scales. The Brazilian geology has so far revealed only relatively small and often hard to reach deposits of oil and gas.

PETROBRAS expects to pump 350,000 barrels a day from Campos by 1985 and 150,000 more from other oil discoveries and has a potentially big gas strike in the Amazon jungle, all of which will raise oil production to an estimated half a million barrels a day by the middle of the decade, from the present 270,000 and the 160,000 in 1973.

Domestic consumption of petroleum now stands at about 1 million barrels a day and if the government has its way it will remain at that level as conservation and substitution are expected to make up for the estimated increase in consumption to 1.7 million barrels a day in 1985.

According to both the plans of the "energy war" and the Brazilian Energy Model, conservation is the second priority of the government. Enforced by artifically high gasoline prices, the closing of service stations on weekends and incentives to switch from petroleum derivatives to alcohol, gassified coal and hydroelectricity. Conservation measures have been successful in cutting down the average annual consumption growth of 7 percent to zero, and actually reduced direct petroleum consumption from a high of 1.1-million barrels a day to 1 million.

Brazil's long-range strategy on energy calls for a combination of continued oil imports, at a lower level, domestic oil production, hopefully at a higher level, and a combination of various alternatives. Brazil's energy program is hailed as one of the best and most coordinated in the world, and because the energy sector is mainly government controlled it has a better chance of being carried out.

Of the alternatives, alcohol is getting all the publicity, hydropower presents the most solid potential, nuclear energy is the most controversial and coal is the dark horse.

Still incomplete figures estimate Brazil's hydropower potential at 209-million kilowatts, or more than any other country in the world. The Amazon and many other regions have yet to be surveyed, making hydropower the strongest card in the alternative game. Of this total only one-quarter is actually harnessed or in the process of being harnessed, leaving a tremendous potential still to be tapped.

Brazil has also developed its hydroelectric technology to the point that it is now building the Itaipu power station, which at 12.6-million kilowatts will be the largest in the world. In fact, Brazil is exporting its hydroelectric knowhow and is building hydro projects in several Latin American and African countries. Although it is not giving it as much publicity, the government is pushing the hydro sector and its participation in the overall supply of energy has doubled from 5 percent to 10 percent. If the government has its way, the percentage will double again by the turn of the century.

Aviation: Successful Sales Bring Problems

(Continued from Page 10S)

being produced here, with about 50 percent Brazilian components, represent over half of EMBRAER's annual production.

Cessna, which was closed out, has brought pressure on the U.S. government to ban sales of EMBRAER aircraft in the United States, claiming discrimination under Brazilian trade regulations. Brazilian officials point out that this country remains a large market for U.S. commercial jets, with Boeing and McDonnell Douglas equipment dominating the market here.

Complaints Filed

No action had been taken on the Cessna complaint by U.S. Trade Commission or Commerce Department officials. But the issue began to receive attention in Washington again after Fairchild filed its complaint, coinciding with reports that VASP, the São Paulo state airline, had decided to purchase nine Airbus 310 for renewal of its fleet, in place of Boeings.

The success of Bandeirante sales abroad has led EMBRAER to design a new, larger turboprop model called the Brasília, which can seat up to 39 passengers. Although the aircraft will not be available until next year, more than 100 preliminary orders have been placed for the new model.

With accumulated production of more than 2,400 airplanes, including a popular crop-duster called the Ipanema, EMBRAER has played a major role in transfering aviation technology to various sectors of Brazilian industry through more than 300 suppliers. Some of these parts producers also are exporting now, amplifying Brazil's role in the international aircraft market.

This is particularly important in the Third World markets, where Brazil has certain advantages in simplicity of design, low maintennance requirements, adaptation to primitive airports and communications, and salesmanship. Here again EMBRAER operates with very competitive export credit terms.

But EMBRAER, having succeeded in entering the developed country markets with the Bandeirante and Xingu, is clearly not going to settle for being a supplier only to the Third World. The competitive skills developed by the local industry with an internationally accepted product will continue to receive official financial backing for exports.

The battle to win a market share for the Brasília will test the competitive conditions for this aircraft against other turboprop aircraft designed by U.S. manufacturers who have lost out to the Bandeirante. It also may test the extent of U.S. protectionism in a sensitive industry where both Brazil and the United States are exporters to each other of different kinds of aircraft.

— JUAN de ONIS

Hydroelectric Projects

(Continued from Page 11S)

that part of the electricity generated by Itaipu that cannot be consumed by Paraguay.

But power generated at Itaipu will be superfluous. A forecasting error? Forecasts for the energy market were made in the "boom" years of the past decade and were based on prevailing annual rates of electrical energy growth of around 10 percent as recorded between 1967 to 1980.

In 1981, the annual average growth rate dropped abruptly to 3.2 percent, which meant that the consumption of 120,591 gigawatts per hour registered in 1980 increased to 124,141 gigawatts per hour in 1981. The slowdown was prompted by a drop in Brazilian economic activities, the country's first experience of negative growth since World War II.

Planning for the energy sector is the responsibility of Centrais Eletricas Brasileiras S.A. — ELETROBRAS, a state holding company monopoly under the Ministry of Mines and Energy.

As a result of the behavior of the market, ELETROBRAS saw that it was obligated to rethink its energy plan, only two years old, which had projections up to 1995. These studies resulted in a more solid plan — called Plan 2000 — which seeks to establish periodic updates in accord with the performance of the energy market, as well as to solve in the short term the question of funding projects without defined financial resources for their installation and conclusion.

Important elections this November are weakening what has been termed realistic pricing of electricity by ELETROBRAS since 1981 aimed at increasing the percentage of financing raised internally by the company. A rate increase of 21 percent slated to be implemented last month was postponed because of political pressure from the government party, which has seen its chances recently fall according to polls.

ARTS / LEISURE

Fassbinder's 'Querelle' Fails

By Thomas Quinn Curtiss
International Herald Tribune

VENICE — Rainer Werner Fassbinder's film "Querelle," completed on the eve of his death last spring and premiered at the Venice Festival, is derived from Jean Genet's novel about homicide and homosexuality among the tars of Brest. The book was sold under the counter when published in the late 1940s and any attempt to film it then would have brought the police on the gallop.

Fassbinder and Genet are not an ideal pair for collaboration. Genet was a lyric author who with winged words glorified crime and passion in this story of an angel-faced sailor with an impulse to kill. Fassbinder's approach is ill-suited to what is basically a romantic melodrama and not another sociological study. Therefore, he has altered it to unhappy results.

Influenced by the Brecht theory of alienation, he has divorced its incidents from their background and from the novelist's poetic mystique. Genet paragraphs are inserted as subtitles and read by voice-over as though they were the idiot boards of the epic theater, and a transparent artificiality reigns throughout.

The setting is not the misty port where beckoning evil and desire stalk in the shadows, but a series of intimate revue scenes with such a profusion of clashing uniforms that the costuming lends the air of a frantic, camp number. The dialogue in English, with its unmitigated recital of obscenities, would call for the bouncer even in a Bowery saloon, while the dreary debauchery in operation would cause the crustiest of salts to consider joining the Salvation Army.

Brad Davis (of "Midnight Express"), more Brooklyn Navy Yard than Brest in speech and manner, has been recruited for the role of the sailor who breaks the hearts of both sexes. It is a difficult assignment and at least no one laughs as he enters into situations that become ridiculous through the blunt literality of their transposition. The sluttish wife of a waterfront dive keeper lusts for him and he lusts back. On the list of his beaux are the woman's husband, who gambles for his favors, and his ship's captain, a repressed gay who finally comes out of his cabin. Jeanne Moreau plays the predatory barroom hostess as though she were Lady Macbeth.

The Fassbinder innovations, with their literary cabaret stylization, have a hollow counterfeit ring and a humorless, heavy-handed travesty of the original emerges. The sentiments are false, the people are unconvincing puppets, the sexual relations are absurd, and the striving for sinister innuendos weighs a ton.

Ghetto History

A singularly absorbing documentary was shown outside the Lido festivities. This is "The Ghetto," produced, written and narrated by Regina Resnik, the opera singer and director.

It relates the history of the Venetian ghetto from its creation in the early 16th century, when it was ruled that the Jews must live in a separate community. Their picturesque lifestyle and their trades have been immortalized by the brushes of the Venetian masters, from Tintoretto to the moderns. Arbit Blatas, the painter-sculptor, has commemorated the martyrdom of Nazi deportation in 1943 with bronze bas-reliefs mounted on a wall in the Ghetto Nuovo.

The film, shot by Alberto Castellani and Paolo Borgonovi, handsomely reproduces the famous canvases of the ghetto existence and Resnik's running commentary dramatically covers several centuries in an enlightening 50 minutes.

A less expansive glimpse at the past is contained in the fine Swedish film, in festival competition, "The Flight of the Eagle" of Jan Troell, concerned with the arctic explorer, S.A. Andrée, who tried to reach to the North Pole in a balloon in 1897. Troell, the director of the memorable "Emigrants," has reproduced the expedition with stunning camera work, constant excitement and a splendid cast headed by Max von Sydow as the courageous explorer.

Soviet Entry

The Soviet film "Private Life" of Yuli Raizman shows Russian life in the terms of an individual's problems. The elderly director of a large industrial plant has been abruptly retired and is unable to adjust to an idle existence. He sinks into depression and is at odds with members of his family. His patient wife to some degree comforts him, but it is only when the promise of a future position comes that his confidence is restored. Mikhail Ulyanov as the beset administrator without employment contributes a compelling characterization and the supporting company is high grade.

The Egyptian entry, "Memory," of Youssef Chahine, similarly introduces us to a man in a dilemna about his future, though the scene and his crisis are very different. He is a middle-aged movie director who faces heart surgery and is preoccupied by his past, as was the protagonist of Fellini's "8½." Chahine's case history unfolds leisurely — far too leisurely — but its sincerity holds attention.

In Gianni Amelio's "Colpire al Cuore" (Strike at the Heart), a sensitive 15-year-old, having witnessed murderous street violence, reports his middle-aged father's terroristic connection to the police.

Marco Bellocchio who made his debut in 1965 as an angry young rebel, sounds a prelude to family harmony in "Gli Occhi e la Bocca" (The Eyes and the Mouth) in which a dissipated, devil-may-care actor, shocked into reality by his brother's suicide, longs for a reconciliation with his parents.

And Franco Brusati tells in "Il Buon Soldato" (The Good Soldier) of a mature woman who by the example of her energy and courage tries to instill a love of life in a listless lad.

Losey on Modern Youth

"La Truite" of Joseph Losey, based on a Roger Vailland novel, is also about modern youth. The case selected here for examination is that of the daughter of a Jura mountain trout breeder who weds the homosexual protégé of a local aristocrat. The marriage, though friendly, is never consummated and when the couple move to Paris the bride grows restless and takes off for Tokyo with a get-rich-quick speculator. While she is indulging her expensive tastes in the Orient, her legal mate attempts suicide. Yet this and other melodramatic complications fail to trouble seriously the selfish provincial minx.

Cesare Zavattini, author of many of Vittorio de Sica's scenarios and a director in his own right, hints in his film "La Verità" (The Truth) that the elderly must devote themselves to the task of improving the world as the young seem to have dropped the job as hopeless. Himself an octogenarian, he has composed and staged his latest script and undertakes his central role, that of an ancient who has been declared insane and confined to an asylum from which he escapes to preach his doctrines. The veteran movie-man's approach is winning and humorous despite its cranky tone.

"The Draughtman's Contract" of Peter Greenaway, representing Britain in the competition, is remarkable for its sense of high style, its orginality and its curious literary flavor. It recounts the visit of a celebrated landscape artist to a stately country mansion in 17th-century England. He has been engaged to produce a set of drawings of the property, but in the odd agreement he has signed he is to be granted the amorous favors of his married hostess whose brutish husband is absent.

The plot maneuvers are as intricate as those of a Congreve comedy, but the mood is darkly sinister, charged with brooding evil. It is a costumed suspense thriller written in imitation Restoration dialogue with perhaps a suggestion or two from the fiction of the Marquis de Sade.

"The State of Things" by Wim Wenders, shot in English in Portugal, is a monotonous movie about a film company stranded on a seaside location when celluloid and funds run dry and more money from home is not forthcoming. Liliana Cavani's "Beyond the Door" is a poor try at the standard Hollywood hokum with a North African setting.

Better than these is a short satire by Claire Peploe, Bernardo Bertolucci's wife, "Cops and Robbers." Filmed in London, it is far more amusing than most of the two-hour-long features.

Franco Nero, Jeanne Moreau and Brad Davis in Rainer Werner Fassbinder's last film.

Bintley's Romantic 'Swan' Ballet

By Noel Goodwin
International Herald Tribune

LONDON — Yet another swan-woman takes to her toe shoes in "The Swan of Tuonela," the first three-act ballet by David Bintley, premiered at the opening of the Sadler's Wells Royal Ballet's new season. Bintley, now 25 and the creator of successful shorter works since he began choreographing four years ago, has this time gone for the old style of epic romance and narrative fantasy, in which the storytelling often has to take precedence over the dancing.

Unclear Incidents

Even then the incidents and their purpose are not always clear in a tale based on the Kalevala, the Finnish epic, with music entirely by Sibelius: six major tone poems and some shorter pieces, most of which were prompted by the same poetic source. Sibelius, however, is a composer whose intense, brooding scene-painting seldom occasions much rhythmic spirit for movement on a physical plane.

The haunting orchestral rhapsody that gives the ballet its title is also its swan song at the end: The fabled swan who was forced to become the unwilling instrument of death is freed from the evil spell of the demon Tuoni and resumes her proper mission of bearing dead heroes to heaven. To accomplish this is the destiny of Lemminkainen, first seen as a newborn baby in the ballet's prologue, whose adult adventures fill the other scenes.

Bintley's choreography tells a complex story with a sometimes heavy burden of mime and gesture, to which the episodes of pure dancing come as a welcome relief. He uses the classical ballet vocabulary with skill and and assurance, notably in celebratory dances for women and warriors, and in romantic or reflective passages for Lemminkainen (David Ashmole), his bride Rauni (Marion Tait) and the swan herself (June Highwood).

The settings and costumes by Terry Bartlett achieve a sense of epic and fantasy without elaborate detail, including a sleek swan-woman quite different from the conventional image, and a striking view of the underworld and its denizens. The presentation is also helped by Mark Henderson's lighting, which ensures that the focus of each scene is never in doubt even when some of the action seems puzzling.

Much of this has to do with a magic talisman, which has been broken and has to be forged anew as a source of happiness and prosperity, and the reasons why Lemminkainen, at a crucial moment, refuses to take up arms as a leader in battle are not made clear. It should also be incumbent on a choreographer who strews four principal characters prostrate on the stage at once not to leave us in doubt which, if any, are dead, and which merely hors de combat.

Expressive Music

These are, nevertheless, the failings of inexperience, and it is better that Bintley should now be taking risks instead of playing safe, though whether in this three-act form and style is more questionable. Barry Wordsworth's conducting ensured that the Sibelius music had expressive character, although a close-packed evening of nothing else tends to grow wearisome.

"The Swan of Tuonela" is in repertory at Sadler's Wells Theatre through Saturday, after which the company leaves for a 10-week tour of New Zealand (from Sept. 20), Australia (from Oct. 19), Singapore (from Nov. 24) and Bangkok (from Nov. 30).

Phone Answering Gets Creative Tone

By Julie Levy
Los Angeles Times Service

LOS ANGELES — Tony Peyser can't begin his day until he completes a ritual that began when his parents gave him a telephone answering machine for Christmas. In his Beverly Hills, Calif., office, he creates a new tape-recorded message for his machine. If he has trouble coming up with something new it can ruin his day.

"If I can't think of something on a daily basis, then I'm in trouble," said Peyser, a free-lance writer sensitive to lapses of eloquence.

It is a scene that would startle Valdemar Poulsen. When Poulsen, a Danish engineer, invented an automatic telephone answering device in 1899, it was greeted with such lack of interest that he sold the patent in 1905 and moved on to other projects.

But his idea, reintroduced in the early 1960s as an aid to business and professional people, has grown into a $115-million-a-year industry in the United States, according to the Home Appliance Manufacturers and Electrical Industries Association, which said nearly 700,000 of the devices were sold last year.

Outlet for Self-Expression

And as anyone who uses a telephone can testify, the answering machine has also been turned into a playground for self-expression.

New York advertising executive Ethel Rubinstein had even more traffic — making her answering device virtually useless — after she received a machine with a stylized message as a birthday gift from jingle writer Spencer Michlin.

Michlin composed a ditty called "Ethel's Telephone" for Rubinstein's machine:

I'm just a telephone.
Ethel's left me here all alone to tell you she's not here.
But if you tell me who you are, Ethel promised to be checking in before too long . . .

The one-minute message became so popular that more than 100 people from around the country called each day to hear it. Rubinstein finally got a second telephone for legitimate calls, leaving her old number to Ethel's Telephone, which now complains:

. . . but it's lonely to be a telephone,
all alone.
So talk to me.
Don't you see?
I need a little human company . . ."

With an estimated 5 million of the answering devices in U.S. homes and businesses, today's telephone caller never knows when he is going to be greeted by 20 or 30 seconds of humor, corn, obscenity or other off-beat greetings.

Like the message at the home of Representative Bob Davis, Michigan Republican, and his wife, Marty, which employs the voice of Maxwell Smart, the fictional star of television's "Get Smart":

"Hello, is that you, 99? I'm locked in a closet at Marty's house, and I'm talking on my shoe phone. I was looking for my coat and the door slammed shut. Marty will free me when she gets home . . ."

Gary Goodman, who has a doctorate in communications and has written several books on telephone communication, suggests that the clever messages serve a purpose beyond laughs — overcoming the atmosphere that disconcerts some callers so much that they hang up rather than leave a message.

"It's that feeling of suddenly having to perform," Goodman said. "It's almost like a trained seal act — at the beep you have to start talking. People feel manipulated."

The success of the answering device industry has spawned several new businesses that develop messages for those who doubt their creativity or don't like the sound of their own voices.

A five-year-old company called Phoneys offers a series of 10 cassettes, each holding 12 recorded messages.

One salutation features throaty snarls and barking in the background while a pleasant voice says:

"Hello, there's nobody home — except our killer Dobermans. Should you wish to leave a message, please do so at the tone. If you're a cat burglar — forget it."

Celebrity Voices, a Hollywood company, employs actors to impersonate celebrities in messages tailored to small businesses.

Celebrity Voices created an impersonation of George C. Scott as General Patton to answer the phone at a dog obedience school:

"At ease. I want to thank you for calling the Dog Training Company, the finest academy for the training of basic obedience this side of West Point. Any son-of-a-gun knows that . . ."

After studying the effects of music on audience attention in commercials, jingle-writer Al Ross concluded that musical greetings would entice more callers to leave messages than spoken ones. He quit his advertising job three years ago and started his own singing-message company, Phone Songs.

Ross said a survey of his early customers showed his singing messages encouraged 30 percent more callers to leave messages.

Gold Markets Sept. 6

	A.M.	P.M.	Ch'ge
Hong Kong	448.00	451.25	+1.25
Luxembourg	451.50	—	+0.50
Paris (12.5 kilo)	441.30	442.87	+16.96
Zurich	450.25	463.00	+7.00
London	458.00	474.00	+19.00
New York	Closed	—	—

Official fixings for London, Paris and Luxembourg, opening and closing prices for Hong Kong and Zurich, N.Y. Handy & Harman. U.S. dollars per ounce.

Swiss Prices Increase 0.8%

Reuters

BERN, Switzerland — Swiss consumer prices rose 0.8 percent in August after an increase of 0.4 percent in July, the Federal Office of Industry, Trade and Labor said Monday. Year-on-year inflation slowed to 5.2 percent in August from 6 percent in July, it added.

Canadian Stock Markets Sept. 3

Prices in Canadian cents unless marked $.

Toronto

	High	Low	Close	Ch'ge
2575 AMCA Int	$18	17¾	18	+ ¼
770 Abiti Prce	$18¼	18	18	− ¼
2000 Acklands	$12¾	12¾	12¾	+ ½
73620 Agnico E	$11¼	10¾	10¾	+ ⅛
300 Agra Ind A	$8¼	8⅛	8⅛	+ ⅛
46995 All Energy	$16⅛	15¾	15⅞	+ ½
210 Algo Cent	$14	14	14	
5995 Algoma St	$24¼	24	24	
1150 Andrs WA f	$16	16	16	
1674 Argus C pr	400	395	400	+15
500 Asbestos	$11	11	11	
52100 Atco I f	$6⅞	6½	6⅞	− ¼
42345 BP Can	$28¼	27	27½	+ ⅜
56141 Bank N S	$27⅜	26¾	26¾	− ½
200 Baton A f	$7⅛	7⅛	7⅛	
30900 Bralor Res	$6⅞	6⅛	6⅞	+ ¼
2000 Bramalea	$6	5¾	5¾	− ¼
2700 Brenda M	$9¾	9½	9½	+ ¼
15600 BCFP	$9¾	9⅛	9⅛	− ⅛
29130 BCRIC	299	290	290	− 1
4220 BC Phone	$14¼	13⅞	13⅞	− ⅜
6100 Brunswk	$10¾	10⅛	10¾	+ ½
450 Budd Can	$6	5¾	5¾	+ ⅛
23825 CAE	$8⅞	8⅝	8⅝	
292480 Cad Fry	$7	6¾	7	+ ⅛
60325 Camflo	$10⅝	10⅛	10⅛	+ ⅛
71817 C Nor West	$33½	32¾	33	
6025 C Packrs	$28¾	28¼	28¼	− ¼
1815 Can Trust	$25	23½	24½	+1⅛
5000 C Tung	$19	16½	19	+ 3
168027 CI Bk Com	$23¼	23	23	
228363 CanP Ent	$18⅞	18⅛	18¼	
30400 Cdn Nat Res	245	230	240	+12
14293 CTire A f	$43	42½	42½	+ ½
122412 Canusa	350	330	350	+20
2065 Celanese	$5⅛	5	5⅛	+22
8000 Cherokee	$5¼	490	5	+20
500 CHUM	$16¼	16¼	16¼	+1¼
4000 Con Distrb	$10⅞	10½	10⅞	+ ⅜
900 Con Fardy	156	156	156	+ 6

	High	Low	Close	Ch'ge
2600 CTL Bank	$8⅝	8⅛	8⅝	
14400 Conventrs	$5½	5¼	5¼	
1800 Conwest A	450	420	450	+35
77050 Coseka R	370	350	370	+10
43250 Conron A	$9½	9⅜	9½	+ ¼
16875 Craigmt	235	225	225	+ 5
40450 Czar Res	260	245	250	− 2
140958 Daon Dev	110	81	93	−17
1300 Daon A f	160	145	160	−15
4883 Denison	$23	22⅝	22¾	
144814 Dicknsn A f	310	285	294	+24
37740 Dicknsn B	310	290	298	+15
11700 Doman I	335	315	325	− 5
4181 Dofasco A	$33	32¼	33	+ ½
2890 Dom Store	$16	15½	16	+ ½
1800 Du Pont A	$15	14⅝	15	+ ⅛
600 Dylex A f	$15½	15½	15½	+ ⅛
2300 Electhom X	$7¼	7	7	− ¼
3516 Extndcr f	$10	9¾	10	+ ¼
9905 FCA Intl	$9	9	9	+ ¼
59285 C Falcon C	$13⅝	12¾	12⅞	
12507 Fibrg Nik	$50¾	48¼	50	+2½
2100 Fed Ind A	$10½	10⅜	10½	+ ¼
1280 Fraser	$11	10⅝	10¾	+ ¼
375 Fruehauf	$9	8¾	8¾	− ⅛
900 G M Res	215	210	215	+15
200 G Distrb A	$12⅛	12⅛	12⅛	− ¼
500 G Distrb w	420	410	410	−15
29300 Gibraltar	$10	9⅝	9⅝	+ ¼
2900 Grandma	370	355	355	+ 5
4300 Granduc	145	130	145	− 5
900 GL Forest	$62⅞	62	62⅞	+1⅛
1060 Gt Pacific	$16⅞	16⅝	16⅞	
6260 Greyhnd	$21½	21⅛	21½	+ ⅛
400 Hrding A f	110	105	110	+ 5
5750 Hawker	$10½	10⅛	10¼	

	High	Low	Close	Ch'ge
384 Hayes D	$9	9	9	+ ⅛
7069 H Bay Co	$18¼	17⅞	18¼	+ ¼
200 Indal	$12½	12¼	12½	+ ½
10 Indusmin	$10⅛	10⅛	10⅛	+1⅛
61880 Inter Pipe	$19¾	19⅜	19⅝	+ ⅜
4000 Jannock	$7	6½	6½	− ½
19700 Kam Kotia	146	129	130	−10
16080 Kerr Add	$16½	16⅛	16¼	+ ⅛
28663 Labatt A	$28⅝	28	28¼	+ ¼
800 Lab Min	$49	48½	48½	
3000 LOnt Cem	485	480	485	+10
106200 Lacana	$6⅛	495	495	−142
9361 LL Lac	$17½	16	16½	
20600 Loblaw Co	$9	8⅝	8⅝	+ ⅛
400 MICC	$8	7¾	8	
75510 Mclan H X	$10½	10⅛	10¼	+ ⅛
10800 Est Mirtic	$5⅝	5¼	5¼	
56934 Merland E	$6½	5⅞	6½	+ ⅜
18273 Molson A f	$28¾	28⅝	28⅝	
3550 Molson B	$26½	26½	26½	− ⅜
12100 Murphy	$30	29⅝	30	+ 1
164271 Noranda	$17¼	16¾	17	+ ¾
21920 Norcen	$31¼	31	31⅛	+ ½
56260 Nva AltA f	$7	6¾	6¾	− ¼
500 Nowsco W	$13	13	13	+ ⅛
60993 Nu-Wst A	175	168	170	
37892 Oakwood	$14¼	13½	13⅝	+ ¼
1700 Oshawa A f	$16	15⅝	16	
8145 Pamour	$7⅝	7	7¼	+ ⅜
2545 PanCan P	$84½	83½	84½	+1½
100 Pembina	$8¾	8¼	8¼	
18 Petro Can	$141½	141½	141½	+ 1
7300 Phonix Oil	$11⅛	10⅝	10½	− ⅛
720 Pine Point	$26⅝	26½	26½	− ½
5500 Place GO o	63	61	63	+ 2
96909 Placer	$17¾	17	17⅛	+ ⅛

	High	Low	Close	Ch'ge
1600 Ram Pet o	$5⅛	5	5	− ⅛
1000 Redpath	$7⅝	7¼	7⅝	+ ½
584 Rd Stenhs A	$11	11	11	
869 Reichhold	$5¼	5	5¼	+ ¼
100 Ravn Prp A	116	116	116	− 4
700 Rogers A	$8½	8¼	8⅜	+ ¼
3400 Roman	$8½	7⅝	7⅝	− ¼
1650 Rothman	$27¼	27	27¼	+ ⅛
30875 Sceptre	$8¼	8	8⅛	
21200 Scotts f	$6¼	5⅞	6¼	+ ½
75785 Shell Can	$23⅝	22¾	23¼	+ ¼
12977 Sherritt	$6⅝	6⅛	6⅛	− ⅛
1720 Sigma	$14	12⅝	13	
375 SSears A f	$5⅞	5⅞	5⅞	
100 Slater Stl	$12½	12½	12½	+ ⅜
1925 Southm	$27½	27½	27½	+ ½
26520 Stelco A	$21	20	20⅛	+ ⅜
675 Steep R	$5¼	5¼	5¼	
29677 Sulpetro B f	$8	7¾	8	
8000 Talcorp A	130	125	125	+ 5
250 Tara o	$7	7	7	
4200 Teck Cor A	$8½	8¼	8½	+ ⅛
29087 Teck B f	$7⅞	7⅝	7⅝	− ⅜
25182 Tex Can	$32½	31¾	32	− ¼
51150 Thom N A	$24½	24	24	
49069 Tor Dm Bk	$31½	31	31	
1300 Torstar B f	$10	9⅝	10	+ ⅜
11560 Traders A f	$9	8⅞	9	+ ¼
3525 Trns Mt	$7¼	7	7⅛	+ ½
33000 Trinity Res	$10¾	10	10¾	+ ¾
83654 TrnAlta UA	$18½	18	18¼	+ ¼
49358 TrCan PL	$21½	20⅞	20⅞	− ½
56650 Trimac	$6⅝	5¾	6⅛	+ ½
41875 Turbo f	115	109	110	− 1
13915 Bank Mont	$22⅞	21½	21⅞	− ¼
1229 Can Cml	$10	9¾	9⅞	+ ½

	High	Low	Close	Ch'ge
3198 Con Bath	$17⅜	16½	17⅜	+1¼
1400 Imasco	$46	46	46	
8462 Nat Bk Cda	$5⅞	5¾	5⅞	+ ⅛
32584 Power Co	$11⅞	11⅜	11⅞	+ ⅜
17415 Royal Bank	$23⅜	23	23	− ⅜
1800 Roy Trst Co	$14	14	14	+ ½

Total Sales: 1,419,381 shares.

Montreal

	High	Low	Close	Ch'ge
350 Un Carbid	$10⅜	10¼	10⅜	+ ⅜
6710 Union Gas	$8¾	8⅝	8⅝	
12105 U Keno	$14¾	14	14¼	+ ½
3200 U Siscoe	$5⅝	5½	5½	+ ¼
8374 Versil A f	$7½	7¼	7¼	+ ⅛
1600 Vestgron	$16	15¾	15¾	+ ⅛
100 Welcwod	$19⅝	19⅝	19⅝	+ ⅛
2700 Westfort o	105	101	101	+ 6
7900 Westmin	$9¼	9	9	− ⅛
1332 Weston	$33¼	33	33	
39640 Willroy	$9	8⅝	8⅝	+ ⅛
700 Woodwd A	$11½	11⅜	11⅜	+ ¼
1000 Yk Bear	$7	6⅞	7	+ ⅛

Total Sales: 14,176,209 shares.

Canadian Indexes Sep. 3

	Close	Previous
Montreal	300.05	294.70
Toronto	1,650.70	1,639.80

Montreal: Stock Exchange Industrials Index.
Toronto: TSE 300 Index.

Paris Commodities Sept. 6

Figures in French francs per metric ton.

	High	Low	Close		Ch'ge
SUGAR					
Oct	1,375	1,370	1,370	1,375	− 7
Nov	N.T.	N.T.	1,385	1,395	Unch.
Dec	1,410	1,405	1,400	1,405	− 5
Mar	1,515	1,510	1,514	1,517	− 6
May	1,515	1,515	1,570	1,580	− 4
Jly	1,610	1,610	1,606	1,615	+ 6
Aug	N.T.	N.T.	1,630	1,640	− 5
Oct	N.T.	N.T.	1,670	1,680	− 15
354 lots of 50 tons. Open interest: 14,690					
COCOA					
Sep	1,111	1,111	1,080	1,145	− 30
Dec	1,180	1,180	1,165	1,185	Unch.
Mar	1,235	1,235	1,225	1,240	+ 5
May	N.T.	N.T.	1,260	1,275	+ 10
Jly	N.T.	N.T.	1,300	1,310	+ 10
Sep	N.T.	N.T.	1,340	1,350	+ 25
Dec	N.T.	N.T.	1,355	1,365	+ 10
6 lots of 10 tons. Open interest: 269					
COFFEE					
Sep	1,700	1,470	1,486	1,490	+ 21
Nov	1,545	1,510	1,531	1,537	+ 11
Jan	N.T.	N.T.	—	1,420	+ 20
Mar	N.T.	N.T.	1,345	1,365	− 5
May	N.T.	N.T.	1,277	1,315	− 33
Jly	N.T.	N.T.	1,266	—	+ 6
Sep	N.T.	N.T.	1,258	1,265	− 10
91 lots. Open interest: 671					

London Commodities Sept. 6

Figures in sterling per metric ton.
Gasoil in U.S. dollars per metric ton.

	High	Low	Close		Previous	
SUGAR						
Oct	100.50	98.75	99.20	99.30	100.10	100.20
Jan	N.T.	N.T.	104.00	108.00	103.00	108.00
Mar	116.75	114.50	115.10	115.20	116.00	116.20
May	119.50	117.60	118.05	118.50	119.50	119.75
Aug	N.T.	N.T.	121.50	122.00	122.75	123.25
Oct	N.T.	N.T.	125.15	125.25	126.25	126.75
Jan	N.T.	N.T.	127.00	130.00	128.00	130.00
962 lots of 50 tons.						
COCOA						
Sep	955	940	941	946	939	941
Dec	988	971	977	978	976	977
Mar	1,015	1,000	1,008	1,010	1,006	1,007
May	1,028	1,015	1,025	1,026	1,019	1,020
Jly	1,043	1,037	1,042	1,043	1,030	1,040
Sep	1,064	1,053	1,060	1,061	1,045	1,059
Dec	1,080	1,080	1,075	1,082	1,060	1,080
2,634 lots of 10 tons.						
COFFEE						
Sep	1,368	1,336	1,350	1,360	1,335	1,340
Nov	1,300	1,267	1,289	1,290	1,273	1,275
Jan	1,156	1,122	1,147	1,149	1,131	1,132
Mar	1,060	1,040	1,053	1,054	1,042	1,043
May	998	983	990	992	980	984
Jly	969	954	962	965	955	960
Sep	950	943	948	952	940	945
2,924 lots of 5 tons.						
GASOIL						
Sep	304.00	296.50	304.00	304.50	296.25	296.50
Oct	307.75	299.25	307.00	307.25	299.25	299.50
Nov	309.25	302.00	308.00	308.50	301.25	301.50
Dec	308.50	304.00	309.25	309.75	302.75	303.00
Jan	308.00	303.50	308.25	310.00	300.50	302.50
Feb	N.T.	N.T.	307.25	309.00	300.50	302.50
Mar	302.00	298.75	302.00	302.25	297.00	297.75
Apr	N.T.	N.T.	292.00	302.00	290.00	302.00
May	N.T.	N.T.	292.00	305.00	290.00	302.00
7,582 lots of 100 tons.						
GOLD						
Sep	N.T.	N.T.	275.00	275.00	260.00	266.00
Oct	278.95	263.00	276.50	277.50	264.00	264.60
Nov	278.0	278.00	278.00	279.80	266.00	266.40
Dec	280.25	268.80	280.40	282.80	268.10	268.60
Jan	N.T.	N.T.	279.00	282.00	270.00	270.60
Feb	N.T.	N.T.	284.00	285.00	271.50	273.00
Mar	N.T.	N.T.	286.50	287.00	273.50	275.50
368 lots of 100 troy oz.						

London Metals Sept. 6

Figures in sterling per metric ton.
Silver in pence per troy ounce.

	Today		Previous	
High grade copper cathodes:				
spot	856.00	857.00	855.50	856.00
3 months	871.00	871.50	870.0	870.50
Copper cathodes:				
spot	820.00	821.00	819.00	820.00
3 months	843.00	843.50	843.00	844.00
Tin: spot	7,598.00	7,610.00	7,525.00	7,535.00
3 months	7,538.00	7,540.00	7,476.00	7,478.00
Lead: spot	310.50	311.00	310.50	311.00
3 months	322.00	322.50	321.00	321.50
Zinc: spot	445.50	446.00	437.50	438.50
3 months	449.00	449.50	443.00	443.50
Silver: spot	529.50	532.50	506.50	507.50
3 months	543.00	546.00	519.00	519.50
Aluminium: spot	560.00	561.00	566.00	567.00
3 months	578.000	579.00	583.00	584.00
Nickel: spot	2,585.00	2,595.00	2,645.00	2,655.00
3 months	2,620.00	2,630.00	2,675.00	2,680.00

Eurocurrency Interest Rates Sept. 6

	Dollar	D-Mark	Swiss Franc	Sterling	French Franc	ECU	SDR
1 M.	11 7/16 - 11 9/16	7 7/8 - 8	3 1/8 - 3 1/2	11 - 11 1/4	17 3/4 - 19 1/4	12 1/8 - 12 1/2	10 3/4 - 11
2 M.	-	-	N.A. -	-	-	12 1/4 - 12 5/8	10 7/8 - 11 1/8
3 M.	11 9/16 - 11 11/16	3 - 3 1/8	3 7/8 - 4 1/8	10 15/16 - 10 1/16	20 3/4 - 21 3/4	12 3/8 - 12 3/4	11 - 11 3/8
6 M.	12 5/16 - 12 7/16	8 3/8 - 8 1/2	4 5/16 - 4 7/16	11 - 11 1/4	21 1/2 - 22 1/2	12 5/8 - 13	11 3/4 - 12 1/8
1 Y.	13 - 13 1/8	8 3/8 - 8 1/2	4 5/16 - 4 7/16	11 - 11 1/4	21 - 21 1/2	12 5/8 - 13	11 7/8 - 12 1/4

Other Markets Sept. 6

Closing prices in local currencies.

Amsterdam

	Close	Prev.
ABN	240.80	244.00
ACF Holding	78.20	78.50
AKZO	24.90	25.10
Albert Heiln	91.00	92.80
AMEV	89.50	90.00
Amrobank	37.60	38.50
A'Dam Rub	1.75	1.65
Boskalis	37.00	37.00
BVG	N.Q.	99.10
Buerhmann T	31.70	31.50
Caland Hlds	27.50	27.50
Elsevier	152.00	151.80
Ennia	120.xd	123.00
Fokker	30.20	29.90
Gist Brocades	83.40	83.00
Heineken	66.00	68.10
H.V.A.	48.50	50.00
Hoogovens	15.40	15.80
K.L.M.	93.70	94.00
Naarden	27.10	27.30
Nat. Nedder	111.80	112.xd
Nedlloyd	102.00	102.50
Oce Vander G	119.20	118.80
OGEM	0.31	0.33
Pakhoed	38.50	38.60
Philips	25.20	25.40
Robeco	217.00	213.70
Rodamco	118.20	118.80
Rolinco	212.50	209.00
Rorento	166.30	164.20
Royal Dutch	90.80	90.60
RSV	24.00	25.10
Unilever	158.50	159.40
Van Ommer	18.00	18.50
VMF-Stork	51.90	53.00
VNU	54.50	54.70

Anp-Cbs Index: 87.40
Previous: 88.09

Brussels

	Close	Prev.
Agfa-Gevaert	1,795	1,800
Arbed	1,200	1,232
Bekaert	2,195	2,140
Cockerill	120	129
EBES	1,850	1,845
GB-Inno-BM	2,720	2,700
GBL (BLamb)	1,334	1,344
Hoboken	3,650	3,600
Kredietbank	4,240	4,210
Petrofina	4,865	4,750
Soc. Generale	1,276	1,260
Sofina	3,800	3,745
Solvay	2,080	2,060
Traction Elec	2,725	2,700
V. Montagne	3,580	3,570

Bourse Index: 218.03
Previous: 215.51

Frankfurt

	Close	Prev.
AEG	30.90	30.90
Allianz Vers.	439.00	441.80
BASF	110.80	112.40
Bayer	108.70	109.20
Bayer Hypo	211.20	212.00
Bayer Verein	267.00	267.50
BMW	191.70	188.80
Commerzbnk	116.00	116.10
Cont. Gummi	47.40	47.50
Daimler	319.00	314.00
Degussa	217.50	218.50
Demag	120.00	120.00
D.Babcock	153.50	155.80
Deutsche Bk	251.00	252.50
Du. Schulte	170.00	169.00
Dresdner Bk	122.00	122.00
GHH	178.00	179.00
Hapag Lloyd	48.00	48.50
Hochtief	345.80	343.00
Hoechst	105.30	106.30
Hoesch	33.00	33.30
Holzmann	403.00	405.00
Horten	126.50	124.50
Kali u Salz	140.00	140.50
Karstadt	223.50	226.00
Kaufhof	184.00	185.80
KHD	187.00	189.00
Kloeckner	51.50	51.50
Krupp	66.00	66.00
Linde	280.50	284.00
Lufthansa	72.90	73.80
MAN	148.00	150.00
Mannesman	133.00	133.50
Metallgesell.	195.00	194.00
Muench. Ruck	440.00	435.00
Preussag	184.80	185.00
Ruetgerswk	176.00	176.00
RWE.new	172.00	172.00
Schering	282.00	282.50
Siemens	230.70	228.40
Thyssen	82.20	83.10
Varta	139.70	139.70
Veba	120.50	121.00
VEW	119.30	118.50
Volkswagen	130.90	132.30

Commerzbank Index: 672.40
Previous: 677.20

Hong Kong

	Close	Prev.
Cheung Kong	11.00	11.20
China Light	13.60	13.80
Cross Harbor	10.50	10.70
Hang Seng Bk	64.00	63.00
HK Electric	5.80	5.75
HK Hotels	31.50	31.50
HK Land	6.30	6.30
HK Shanghai	9.90	9.80
HK Tel	30.25	29.40
HK Wharf	4.00	3.90
Hutch Wamp	12.70	12.70
Jardine Math	16.40	16.50
Jardine Sec	12.50	12.60
New World	3.20	3.10
Shaw Bros	N.Q.	—
SHK Property	5.35	5.35
Sime Darby	5.00	5.00
Stelux	3.10	3.15
Swire Pacific	10.80	11.00
Swire Prpty	6.90	6.90
Wheelock	4.95	4.90
Wheel Mar	4.30	4.20
Winsor	2.975	2.25
World Intl	2.35	2.25

Hang Seng Index: 1,084.82
Previous: 1,076.26

London

	Close	Prev.
AA Corp	$12⅝	12
Allied Brew	1.28	1.26½
AngloAm Gld	0.77½	0.77½
Babcock-Wil	1.13xd	1.15
Barclays Bk	3.71	3.73
Bass	2.56	2.58
BAT Ind.	5.45	5.30
Beecham Gp	3.20	3.15
BICC	2.98	3.00
BL	0.15	0.15
BOC Int'l	2.03	1.96
Boots	2.55	2.52
Bowater	2.10	2.10
BP	3.06	3.08
Brit.Home St	1.71	1.68
Burmah	1.58	1.56
Cadbury Sc.	1.15xd	1.14
Charter Gold	1.95	1.90
Coats Patons	0.58½	0.59½
Cons.Gold Fds	4.84	4.72
Courtaulds	0.72	0.73
Dalgety	2.94	2.94
De Beers	$5.10	4.80
Distillers	2.06	2.04
Driefontein	$24⅝	23⅞
Dunlop	0.62	0.63
Fisons	4.18	4.11
Free St Ged	31⅛	30⅞
GEC	11.25	10.95
GKN	1.47	1.48
Glaxo	7.93	7.95
Grd Met Hot	2.84	2.81
Guinness	0.92	0.91
GUS	5.45	5.40
Hanson Trust	1.85	1.84
Hawker-Sidd	3.62	3.60
ICI	2.92	2.90
ICL	0.60	0.57
Imps	1.02½	1.02
Lloyds	3.98	4.00
Lonrho	0.92	0.93
Lucas	1.58	1.56
Marks-Spenc	1.82	1.78
Metal Box	1.64	1.60
Midland Bk	3.10	3.13
Natl West Bk	4.08	4.08
Pilkington	2.00	1.95
Plessey	5.38	5.28
Randfontein	$68.00	67½
Rank Org.	1.46	1.41
Reed	2.96	2.96
Royal Dutch	19.43	19.43
RTZ	4.54	4.42
Shell	4.26	4.24
Stand Charter	3.92	3.87
Tate & Lyle	1.82	1.82
Tesco Stores	0.88	0.87
Th.Tilling	1.32	1.30
Thorn (A)	4.58	4.63
Trafalgar H	1.42	1.40
TrustHousesF	1.29	1.27
TI Group	1.10	1.08
Ultramar	4.48	4.38
Unilever	6.45	6.40
Untd Biscuits	1.26	1.33
Vickers	1.49	1.48
War Loan 3½	33⅞	33⅝
W. Deep	$23⅝	22⅞
W. Holding	$39⅝	39⅛
Woolworth	0.46½	0.46
ZCI	0.16	0.16

F.T. 30 Index: 593.90
Previous: 596.20

Milan

	Close	Prev.
Bca Commerc	32,200.	32,100.
Bastogi	80.00	79.00
Centrale	2,749.00	2,699.00
Credito Ital	3,941.00	3,931.00
Fiat	1,695.00	1,675.00
Finsider	33.00	34.00
Generali	143,900.	139,300.
IFI	3,721.00	3,640.00
Italcementi	27,580.	27,490.
LaRinascente	407.00	395.00
Mediobanca	62,200.	60,900.
Montedison	104.00	102.00
Olivetti	2,370.00	2,355.00
Pirelli	2,545.00	2,501.00
Snia Viscosa	714.00	700.00
Standa	2,950.00	2,860.00

BCI Index: 149.36
Previous: 146.55

Paris

	Close	Prev.
Air Liquide	453.00	456.90
Alsthom Atl.	137.00	136.50
Av.Dassault	473.00	469.00
Bancaire	188.50	190.00
Bic	456.00	450.00
Bouygues	706.00	729.00
BSN-GD	1,395.00	1,381.00
Carrefour	1,558.00	1,554.00
Club Medlter	508.00	516.00
Cofimeg	118.80	118.40
Creusot Loire	73.10	73.10
Dumez	1,148.00	1,160.00
Eaux (C Gle)	309.00	313.00
Elf-Aquitaine	107.80	107.50
Europe 1	486.00	475.00
Hachette	504.00	525.00
Imetal	54.50	53.40
Lafarge Cop	209.00	210.10
Legrand	1,531.00	1,517.00
Machines Bull	27.30	26.90
Matra	1,480.00	1,570.00
Michelin	660.00	660.00
MM Pennar	47.90	47.80
Moet Henn	780.00	767.00
Moulinex	53.00	54.00
Nord-Est	42.10	42.70
Occidentale	408.00	412.00
Oreal (L')	940.00	952.00
Pernod Ric	385.00	375.00
Petroles(Fse)	107.90	107.50
Peugeot	125.10	128.70
Poclain	97.80	98.00
Printemps	139.00	140.00
Radiotechn.	283.00	281.50
Redoute	940.xd	975.00
Roussel Uclaf	226.00	244.00
Sacilor	35.00	36.00
SkisRossignol	515.00	510.00
Sour Perrier	176.00	179.50
Telemecan	780.00	775.00
Thomson CSF	128.00	129.50
Usinor	2.74	2.80
UTA	152.00	149.00
Valeo	183.00	179.00

Agefi Index: 109.30
Previous: 109.14

Singapore

	Close	Prev.
Boustead	1.77	1.71
Cold Storage	3.28	3.12
DBS	7.85	7.60
FraserNeave	5.65	5.45
Haw Par Bros.	2.48	2.40
Inchcape	2.23	2.06
Keppel Ship	3.46	3.30
Malay Bnking	5.50	5.50
OCBC	8.00	7.80
OUB	4.32	4.38
Semb Shipyd	2.25	2.16
St Steamship	1.59	1.52
St Trading	4.92	4.68
U Engineers	1.16	1.16
UOB	3.60	3.46

Fraser Ind. Index: 3,856.00
Previous: 3,748.40

Sydney

	Close	Prev.
ACI	1.22	1.20
ANI	2.03	2.07
ANZ Bk	3.32	3.32
Bk Sth Wales	2.57	2.58
Blue Metal	1.53	1.50
Boral	2.40	2.37
Bougainville	1.63	1.56
Brambles	2.05	2.10
Broken Hill P	7.34	7.24
Coles	2.10	2.08
CSR	3.00	2.92
Comalco	2.10	1.95
CRA	3.78	3.72
Elder Smith	2.66	2.68
EZ Ind.	4.20	4.05
Hooker	0.93	0.94
Magellan	2.20	2.20
MIM Hldgs	3.44	3.38
Myer Emp	1.32	1.32
Oakbridge	1.55	1.50
Pko Wallsd	5.26	5.14
Poseidon	3.40	3.25
Renison Gold	N.A.	—
Robe River	1.25	1.25
Santos	5.36	5.14
Sleigh	0.68	0.68
Southland	0.23	0.23
Woodside Petl	0.75	0.73
Wormald	2.58	2.55

All ordinaries Index: 494.50
Previous: 487.50

Tokyo

	Close	Prev.
Akai	286	288
Asahi Chem.	280	279
Asahi Glass	479	475
Bk Tokyo	292	293
Bridgestone	454	443
Canon	890	890
Dai Nip. Print	671	668
Daiwa	426	428
Fuji Bank	500	500
Fuji Photo	1,480	1,470
Fujitsu	864	859
Hitachi	662	655
Honda Motor	759	765
IHI	140	144
Itoh	263	263
JAL	2,350	2,350
Kajima	318	323
Kansai Pwr.	925	925
Kao Soap	476	476
Kaw Steel	130	130
Kirin Brew	358	359
Komatsu	493	490
Kubota	330	330
Matsu El. Ind.	1,190	1,170
Matsu El Wks	492	500
Mitsubishi Bk	500	500
Mitsubi Chem.	230	228
Mitsubi Corp.	476	480
Mitsubi Elec	294	290
Mitsub Heavy	186	187
Mitsui Co.	299	297
Mitsukoshi	337	330
Mitsumi	349	359
Nikko Sec	348	345
Nippon Elec.	855	856
Nippon Steel	137	136
Nippon Yusen	219	221
Nissan Motor	744	758
Nomura	436	439
Olympus	1,180	1,180
Ricoh	580	582
Sharp	888	893
Sony Corp	3,590	3,580
SumitBank	500	500
Sumit Chem.	144	143
Sumit Metal	135	133
Taisei	228	230
Taisho Mar	213	213
Takeda	804	810
Teijin	209	208
Tokyo El Pwr	840	837
Tokyo Marine	437	431
Toray	385	379
Toshiba	338	335
Toyo Kogyo	365	356
Toyota	905	920
Yamaichi	347	341

New Index: 539.90
Previous: 539.17
Nikkei-DJ Index: 7,219.38
Previous: 7,209.99

Zurich

	Close	Prev.
Alusuisse	415	417
Bk Leu	3,100	3,100
Br Boveri	830	840
Buehrle	880	890
Ciba Geigy	1,280	1,280
Cr Suisse	1,570	1,580
Elektrowatt	2,345	2,330
Fisher	416	420
Hoff-Roche B	6,000	6,050
Interfood	4,450	5,450
Jelmoli	1,380	1,400
Landis Gyr	710	730
Nestle	3,285	3,290
Sandoz	3,900	4,000
SBS	264	269
Schindler	1,460	1,430
Sulzer	1,510	1,500
Swissair	623	623
UBS	2,810	2,830
Winterthur	2,570	2,550
Zurich Ins.	14,200	14,200

SBC Index: 269.50
Previous: 272.10

Herald Tribune INTERNATIONAL

BUSINESS / FINANCE

TUESDAY, SEPTEMBER 7, 1982

BUSINESS BRIEFS

BP Oil Group Trims Operating Loss

LONDON — British Petroleum said Monday that BP Oil Group, its wholly owned U.K. subsidiary, had an operating loss of £31 million ($53.4 million) in the first half of 1982, when judged against the replacement cost of oil.

The loss for BP's U.K. and Irish marketing and refining arm down from a £58-million loss in the same 1981 period, but BP said margins are still depressed and results continue to be unsatisfactory.

BP added that setting the group's results against the replacement cost of oil most realistically illustrates the group's trading performance.

Toyota to Cut 1982 Capital Outlays

TOKYO — Toyota Motor will cut its planned outlays on plant and equipment in 1982 to about 230 billion yen ($890 million) from 260 billion in the face of sluggish demand for vehicles both at home and abroad, Japan's largest automaker said Monday.

A company spokesman did not state those projects to be pruned, but he noted the 116-billion-yen allocation for research and development in 1982 will not be affected. The company's 1982 vehicle production is expected to fall to about 3.22 million, below the 3.38 million target.

Toyota compiles capital outlay programs for both calendar and financial years and the spokesman said outlays in the financial year ending June 30, 1983, will rise to 260 billion yen from 200 billion yen in the previous year.

Western Mining Profits Off Sharply

MELBOURNE — Australia's Western Mining Corp. Holdings Ltd. said Monday lower returns from nickel and gold were the main reasons for the 88-percent fall in its 1981-82 earnings to 6.94 million Australian dollars ($7.15 million).

In a statement to Melbourne Stock Exchange, the company said rising costs and a weakening Australian dollar also contributed to the lower profit.

For the fiscal year ending June 23, 1983, the company only said that nickel demand and prices have continued to weaken but that gold prices have risen sharply.

Commerce Group Warns on Notes

PARIS — The Paris-based International Chamber of Commerce said Monday it has issued a warning to banks and traders to beware of fraudulent promissory notes that refer to the organization without authorization.

The group said it issued the warning after receiving up to 15 inquiries a week about the notes. It said some of the documents in question mention ICC rules and publications and appear to have been drafted on forms issued by the organization.

The organization said: "The ICC has never issued blank promissory note forms, nor has it published rules on their use."

Nippon Electric Sees Sales Growth

TOKYO — Nippon Electric Corp. believes it can regain its medium-term goal of increasing sales by 20 percent a year, Tadahiro Sekimoto, the company's president, said Monday in the annual report, which also noted the company will change its name to NEC Corp. on April 1.

In the financial year ended March 31, 1982, the company's consolidated sales rose 19.12 percent to 1.25 trillion yen, compared with a 22-percent rise the previous year. Consolidated net profits in financial 1981 improved 26-percent to 27.91 billion yen.

Mr. Sekimoto said the company expects to benefit from marketing integrated computer communication systems and the current boom in office automation and demand for 64-K RAM chips.

Compiled From Agency Dispatches

U.S., by Opposing Boost In Aid, Is Isolated at IMF

By Hobart Rowen
Washington Post Service

TORONTO — The United States stood virtually isolated Monday as the annual conference of the World Bank and International Monetary Fund began in an atmosphere of gloom.

The United States resisted the sober warning of other countries and international officials that the poor countries need a great infusion of aid to tide them over the most critical period in nearly 40 years.

The perception of "looming crises," Prime Minister Pierre Elliott Trudeau of Canada said in a speech welcoming the delegates of 144 countries, is "generating fear in the minds of some of our people."

He called on the IMF to "now take the lead as a matter of urgency" to make arrangements guarding against either national collapses or private bankruptcies.

And World Bank President A. W. Clausen described the world economic situation as "grim ... onerous and difficult." Despite the enormity of the problem, he said there is little prospect of real growth in either the regular or subsidized aid programs of the institution which he heads.

The IMF, which came to this meeting with the hope of approval for a boost in its normal resources from $67 billion to at least $110 billion, was rebuffed by its principal contributor, the United States, which alone among the leading industrial countries had voted against an unspecified "substantial increase" in these IMF resources at the meeting Saturday of the policy-making Interim Committee.

The split between the rest of the industrial countries and the United States, not only on the question of IMF resources, but in terms of additional funds for the World Bank group of agencies, was acknowledged Monday by Treasury Secretary Donald T. Regan.

Mr. Regan said the United States has "a more upbeat assessment" of prospects for both the U.S. economy and the world economy than anyone else. He estimates growth next year in the industrial world at 3 to 4 percent. But IMF Managing Director Jacques de Larosiere put the figure at zero and Mr. Clausen suggested minus a 1 percent figure.

Mexico reportedly will pay only interest on its public-sector foreign debt until the end of next year. Page 17.

And Mr. Regan said that with the "alarm at the size of the U.S. deficit ... We have to cut back on that, in every sphere, with the possible exception of defense."

Nonetheless, as Mr. Trudeau suggested, the anxiety over the foreign debt situation in Latin America might have been assuaged by some extraordinary new commitment by the wealthy countries.

An increase in IMF quotas would have been received as willingness by the industrial world to make a long-standing commitment to problems as they surface later in the decade, he said.

Mr. Clausen warned that "if we stick" to a planning figure of $60 billion in loan programs for the five years ending in fiscal 1986, "there is likely to be little if any real growth in bank lending over the next few years."

He also said that the program of the International Development Association, the World Bank affiliate that loans to low-income countries, was at a crossroads. And he said that the failure of the United States to meet its commitments to IDA had caused "not a trimming" of the program, but what amounted to "amputating" the program.

The United States has cut its IDA contributions by 35 percent.

Saying the IDA has been "tremendously successful," Mr. Clausen called on the rich industrial donors to IDA to renew their pledges for fiscal 1983 and 1984.

Mr. Clausen announced that formal discussions on the program for fiscal 1985 and beyond, which would be called IDA-7, will begin before the end of 1982.

But without being specific, he said that for future lending programs, "we have got to be more ingenious and creative, and to see if we can't get more private sector money flowing." In the past, Mr. Clausen has talked about an IDA-7 replenishment that would rely in part on borrowed, rather than donated, money.

But Mr. Clausen's new vision of IDA would shift the agency from its present grant basis (it charges zero interest plus only a three-quarters of one percent service charge) to one charging, perhaps, 5- or 6-percent interest.

Markets Closed

Financial markets and banks were closed Monday in the United States and Canada for Labor Day.

British Royal Navy students use Ferranti's Action Speed Tactical Trainer on HMS Dryad.

Ferranti Gives Credibility to Idea That Good Defense Is Best Offense

By Susan Billington
New York Times Service

LONDON — *In a country where most companies have found their profits battered by recession,* Ferranti, one of Britain's foremost defense and electronics companies, seems hardly to have been bruised.

Since 1980, Ferranti has more than doubled its pretax profit and increased its revenue from £214.6 million ($370 million) to £306.9 million. In the year ending March 31, 1982, earnings per share were 26 percent higher than in the previous year.

That represents a remarkable transformation for a company that in the mid-1970s virtually was insolvent and was bailed out by the government.

"In 1974-75, Ferranti felt what a lot of companies have felt during the recession of the last two years," said Derek Alun-Jones, managing director and chief executive of Ferranti. "The individual problems of our company were solved several years earlier than most others."

Mr. Alun-Jones was brought to Ferranti as part of the government rescue and is credited largely with turning the company around by imposing financial discipline and disposing of money-losing industrial transformers.

The Ferranti story is popular among people of all political persuasions. "It was a case where a Socialist government interfered with industry and it has been a barnstorming success from everybody's point of view," said Mr. Alun-Jones. "The government made £60 million out of it. The employees still have their jobs, which are better protected than most jobs in today's world. The controlling shareholders are all worth a lot of money. There isn't really a sour party."

Ferranti has become a takeover candidate. On July 1, the company was released fully from the partial public control under which it had been operating since 1974. A total of 48 percent of Ferranti's shares

(Continued on Page 16, Col. 5)

Boeing, Airbus See One-Year Delays on 150-Seater Jet

By Axel Krause
International Herald Tribune

FARNBOROUGH, England — Boeing and Airbus Industrie Monday cautioned that delays of up to a year were possible in their development of competing versions of a 150-passenger jet.

Executives of the two companies said, however, that they intended to pursue the development of the new plane despite the substantial costs involved and the gloomy outlook for the aerospace and airline industries. But they added that most of the world's major airlines will continue exploring purchases of airplanes that incorporate improvements in existing models and engines.

"We are keeping are options open, and although we are spending $30 million on engineering for new airplanes, including our version of the 150-seater known as the 7-7, we feel there are alternatives such as our 737-300," O.M. Roetman, Boeing's vice president of international sales, said after a news conference at the Farnborough Airshow, which opened Monday.

McDonnell Douglas's DC-9-80 also is a contender for the 150-passenger market, industry sources said.

Until recently it had been assumed that the new plane might be in service by 1986 or early 1987. But industry sources said it now appears that 1989 is the more likely date.

In addition to the competition and delays on the plane, engine makers are involved in their own competition and are facing their own delays. General Electric and its partner, the French-government-controlled SNECMA, are competing against a group comprising the Pratt & Whitney division of United Technologies, Britain's Rolls Royce, Italy's Fiat and several Japanese companies.

"We thought that there would be an upturn in profits throughout the industry during 1982," said an executive of one of the engine-making companies. "It didn't materialize and it may not for a year at least, hence the delay."

He added that development costs of a new engine for the plane are now estimated at between $1.2 billion and $1.5 billion.

Reports of a delay were given credibility by the confirmation by Robert J. Carlson, executive vice president of United Technologies, that a meeting of Pratt & Whitney and its partners in Munich Aug. 31 and had failed to produce an agreement on developing the engine.

But Mr. Carlson added, "If the project for a 150-seater jet turns out to be real, we will be there."

Executives of Airbus, a consortium dominated by France's Aerospatiale, British Aerospace and Germany's Messerschmitt, Bolkow Blohm, said that a final decision on the project's feasibility would be reached by the end of this year or early next year.

To date, only Air France has ordered the plane. There also have been widespread reports that Delta Airlines and British Caledonian are potential customers.

Commenting on Airbus's outlook, Roger Beteille, vice president and general manager, said that the company would continue development work on its version of the 150-seater, the A-320, "although the engine question has not been fully resolved." He added that the company's policy was not to launch programs but to make them successful.

West German industry sources said Monday that while government budget restraints in Bonn were a factor in limiting the launching of new major aerospace projects, they expect continuing European cooperation to meet U.S. competition in both civilian and military fields.

MBB and British Aerospace officials said Monday that they were particularly optimistic about prospects for development of a new tactical fighter for the 1990s known as the Agile Combat Aircraft.

Company executives said, however, that it may be a year or more before a final decision is reached on whether to proceed with production of the fighter, which has been under discussion for several years.

Gold Continues Its Climb; Dollar Closes Up Slightly

Reuters

LONDON — The price of gold continued its upward movement Monday, closing $16 an ounce higher at $474, its highest since June 3, 1981.

It had opened lower, at $449.25 an ounce, compared with $458 an ounce Friday. But by mid-morning, the drop had been erased and the upward surge resumed.

Dealers said the market was active and nervous throughout the day, with buying including short-covering from the United States, where markets were closed for Labor Day.

In Zurich, gold closed at $474 an ounce, $22 higher than last Friday and also a 15-month high.

Analysts said the main bullish influences in the market was the fear for the health of the international banking system.

Dealers said that currency markets passed a quiet but nervous day, with trading restricted by the U.S. holiday.

The dollar finished generally higher compared with Friday, largely reflecting the $1.5 billion increase in the basic measure of the U.S. money supply announced Friday, dealers said.

The dollar closed at 2.4810 Deutsche marks compared with 2.4740 Friday and at 6.98 French francs, down from an early high of 6.9925 but virtually unchanged from Friday's close.

Hopes for Semiconductor Upturn Evaporate

By Thomas C. Hayes
New York Times Service

SANTA CLARA, Calif. — Last spring a surge of orders lifted hopes in the semiconductor industry that its two-year recession was over.

Summer has dashed those hopes. Orders dried up again, and layoffs spread through the industry. Now executives and analysts alike say that if things do not look up in September it will be well into next year before the industry resumes growing.

"We're looking to September as a bellwether month," said Gordon E. Moore, chairman of Intel, based in Santa Clara.

August is typically a period of weak semiconductor demand — especially among Europeans, who are important customers — and an autumn recovery is anticipated. "September has usually turned out to be a very strong month," said Tom Hinkelman, executive director of the Semiconductor Industry Association. "If September is off, that could be a very important signal."

Strong Crosscurrents

Several strong crosscurrents are at work within the industry, according to James L. Magid, technology analyst with the brokerage house of L.F. Rothschild, Unterberg, Towbin. The boom in videogames, which has benefited National Semiconductor and other companies, is expected to peak soon, while the advent of the personal computer is opening a spectacular new market for makers of computer chips.

"With the general economy where it is, earnings estimates predicated on better business are too high," said Mr. Magid, alluding to the optimism of some Wall Street analysts.

Mr. Hinkelman and others observed that a sustained decline in interest rates is what semiconductor companies need to approach their dazzling earnings growth of the late 1970s or, in a few cases, simply to return to profitability.

Even if August's steep drop in interest rates proves lasting, and orders do pick up, it could be well into 1983 before the orders turn into profit growth for chip producers.

The producers are increasingly linked to the capital goods sector of the economy. About two-thirds of semiconductor production currently goes into such items as machine tools and office automation equipment. In the 1974-75 recession about half of production went into consumer items — such as television — and military goods.

Suppliers to capital goods manufacturers have always been among the last to recover from a business downturn. "I don't see any sharp upturn," Mr. Hinkelman said. "The climb out of the present levels of business is going to be very moderate."

Robert Conrads, a partner at McKinsey & Co., a consulting concern, said many electronic companies were "cutting back" on their capital budgets in trying to repay some of their debt and thus shrink interest costs.

Adam F. Cuhney, a technology analyst at Salomon Brothers, a investment house, sees a selective rebound already taking shape. He said major semiconductor buyers such as Hewlett-Packard and Digital Equipment had stepped up their ordering.

A big inventory buildup by semiconductor distributors — who wrongly anticipated a summer business revival — is what fed last spring's transitory recovery, Mr. Cuhney said. The distributors then stopped ordering as their inventories became overstocked, a stage that major computer manufacturers had already reached.

"For the first time in months, these large customers are coming in and placing 13-to 26-week orders," Mr. Cuhney said.

Michael J. Krasko, a technology analyst with Merrill Lynch, Pierce, Fenner & Smith, noted that many chip makers plan to start new production early next year.

Many analysts cautioned against drawing conclusions about individual semiconductor companies from the general industry picture. *Semiconductor manufacturers* produce different categories of computer chips, with linear and metal-oxide semiconductors the most widely used.

Linear chips are typically used in consumer products such as videogames, stereo amplifiers and smoke detectors, while metal-oxide applications are found in computer memories and microprocessors.

The biggest semiconductor companies, Texas Instruments and Motorola, make products in all categories.

Texas Instruments has a major position in the high-volume linear chips, where National Semiconductor and Signetics also are concentrated. Profits there have been decimated by deep price-cutting by Japanese competitors such as Nippon Electric and Hitachi and by the slowdown in consumer spending.

However, both Intel and Advanced Micro Devices have concentrated on metal-oxide memory chips and are expected by most analysts to outpace the rest of the industry in the months ahead.

"Intel, Advanced Micro Devices and, *to a lesser extent, Motorola* will be enjoying the best volume and price," Mr. Cuhney said. "The end users have designed their new microprocessors and new microchips into their new products."

Intel will derive about 60 percent of its revenues in this year's final quarter from products introduced in either 1981 or 1982, according to Mr. Moore. Intel also has regained much of the momentum it lost to Japanese competitors in the battle for the rapidly growing 64-K RAM (random access memory) chip market.

Last year's sales of the 64-K RAM totaled $140 million. The Japanese share of the market, once as high as 69 percent, is now closer to 50 percent. The stakes are huge; worldwide sales are expected to reach $2 billion by 1985.

Advanced Micro Devices, with the industry's highest ratio of spending for research and development — 16.6 percent — for the year ended June 30, is counting on new products created for telecommunications customers.

CURRENCY RATES

Interbank exchange rates for Sept. 6, excluding bank service charges.

	$	£	D.M.	F.F.	H.L.	Gldr.	B.F.	S.F.	D.K.
Amsterdam	2.718	4.687	109.535 *	38.975 *	0.1944	—	5.71 *	129.03 *	31.23 *
Brussels (a)	47.66	82.18	19.20	6.8025	3.448 *	17.5235	—	22.42	5.4725
Frankfurt	2.4825	4.281	—	35.55 *	1.775 x	91.27 *	5.207 *	117.53 *	28.48 *
London (b)	1.7223	—	4.2772	12.0225	2,407.67	4.6605	82.31	3.6301	14.9921
Milan	1,398.45	2,412.48	563.45	200.42	—	514.50	29.34	662.95	160.57
New York	—				Closed				
Paris	4.98	12.043	281.26 *	—	4.9945 x	256.77 *	14.655 *	331.15 *	80.19 *
Zurich	2.1122	3.6425	85.05 *	30.235 *	0.151	77.62 *	4.4291 *	—	24.255 *
1 ECU	0.9487	0.5504	2.3565	6.6255	1,336.72	2.5813	45.2423	2.0008	8.263
1 SDR					Closed				

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
0.9677	Australian $	1.0334	0.0356	Israeli shekel	28.145	0.4642	Singapore $	2.1545
0.0573	Austrian schilling	17.455	0.0039	Japanese yen	258.225	N.A.	S. African rand	—
0.0202	Belgian fin. franc	49.625	3.4388	Kuwaiti dinar	0.2908	0.0014	S. Korean won	742.80
0.8068	Canadian $	1.2396	0.4247	Malay. ringgit	2.355	0.0089	Spanish peseta	112.235
0.1148	Danish krone	8.7135	0.1457	Norw. krone	6.8675	0.1617	Swedish krona	6.1875
0.2099	Finnish mark	4.764	0.1145	Phil. peso	8.7307	0.0251	Taiwan $	39.87
0.0144	Greek drachma	69.80	N.A.	Port. escudo	—	0.0442	Thai baht	22.6245
0.1653	Hong Kong $	6.0525	0.2907	Saudi riyal	3.4405	0.2723	U.A.E. dirham	3.673
1.3873	Irish £	0.7209						

£ Sterling: 1.2464 Irish £.

(a) Commercial franc. (b) Amounts needed to buy one pound. (*) Units of 100. (x) Units of 1,000.

Ferranti Pins Its Offense on Britain's Defense

(Continued from Page 15)

had been in cold storage since 1980 when the National Enterprise Board sold them to more than 100 institutions on the condition that they could not be resold for two years.

"It is one of those lovely ironies that we could have been taken over for £30 million in the 1970s. Now, the cost would be at least £450 million," said Mr. Alun-Jones, who hopes to keep Ferranti independent and is relieved that no takeover bid has materialized. "We've had two years to establish that we can operate on our own two feet and that makes us more expensive," he said.

In addition to Ferranti's high price, the Falkland Islands war has increased prospects for even better profit. "The Falklands will cause changes in Ministry of Defense policy in ways we welcome," said Mr. Alun-Jones. "It will strengthen the ability of the government to spend on defense, there's no doubt about that."

John Nott, the minister of defense, announced in a June white paper that a reappraisal of Britain's military equipment has begun. Analysts expect that the government will change its mind about planned reductions in the size of the Royal Navy fleet, which Ferrati outfits with computer systems, and will order more of the highly praised Harriers, which are fitted with Ferranti's Blue Fox attack radars.

Because the Ministry of Defense accounts for 60 percent of Ferranti's total sales, security considerations rule out a foreign takeover. The remaining list of probable bidders has only three or four domestic defense and electronics companies that could run into problems with the Monopolies and Mergers Commission in any takeover bid.

Potential Buyer

For instance, General Electric Co. (no relation to the U.S. company of the same name), Britain's largest defense contractor, is considered a potential buyer because it has built up a cash hoard of almost £1 billion and because in May Mr. Sebastian de Ferranti joined GEC's board after resigning as the chairman of Ferranti two months earlier. But a liaison between Ferranti and GEC's Marconi division might result in an impermissible monopoly on sales of high-technology wares to the Ministry of Defense, from which they both expect increased orders.

Because Ferranti's domestic defense business yields only an average profitability of 8 percent on revenue and 23-24 percent on capital employed, Ferranti is diversifying into more lucrative foreign markets. In April, it won a £50 million contract from the Brazilian Navy to put electronics equipment on 4 frigates. This put Ferranti in the politically awkward position of providing weapons systems for a country that favored Argentina during the Falklands conflict.

By far the most attractive but, in Ferranti's view, most overly protectionist foreign defense market is the United States. "The U.S. provides the *biggest* market and highest demand for the types of products Ferranti makes," Mr. Alun-Jones said. "But the U.S. buys very, very little *defense* equipment from anyone else. It's a load of rubbish to say that we don't have anything better to offer than the States. People here have an inferiority complex *about U.S. technology*. We've found that in the fields we operate in, we have quite a good hand to play in terms of technology. But that's a long way from getting the business."

Ferranti currently has $50 million annual sales in the United States, but Mr. Alun-Jones hopes that a new contract to make displays for the Bendix F-18 jets will help to raise it to $100 million in two years.

Ferranti has had better luck breaking into the U.S. civil electronics and telecommunications markets. In 1977, it acquired Interdesign Inc., an integrated circuit manufacturer in California, and last December they entered a joint venture with General Telephone & Electronics to manufacture and market telephone equipment.

The rising star of Ferranti's civil electronics division is a microchip called the uncommitted logic array, a circuit board that provides a relatively cheap compromise between standard and custom-made chips. Ferranti has captured 30 percent of this market and expects that by 1990 the ULA could be worth £10 billion.

Uncommitted Logic

Although Mr. Akun-Jones divested Ferranti of power transformers in the late 1970s, the company still retains an unprofitable engineering division whose products are more susceptible to the current econonic slowdown than Ferranti's high-technology divisions.

Seventy percent of Ferranti's business goes to military equipment, so Ferranti benefits from a captive market in government defense orders with virtually guaranteed profit margins. But Mr. Alun-Jones claims he wants to increase the civil side of Ferranti's business.

"At the moment we are having to run very hard to keep our civil side growing at the same rate as our military side due to recession and the awful tendency that the basic buyer for high technology is defense," he said.

Floating Rate Notes

Closing prices, Sept. 6

Banks

Issuer-Min cpn-Mat.	Coupon	Next	Bid	Askd
Alahli Kuwait 5½-83	11⅞	2-28	99½	100
Allied Irish 6¼-84	15¾	9-30	99⅞	100¼
Allied Irish 5¼-87	16 9/16	1-6	100⅝	101⅛
Allied Irish 5¼-92	15 11/16	10-15	98	98½
Amex Fin 82-85	15 5/16	10-22	100	—
Andelsbanken 7-84	15 1/16	12-6	100⅝	100⅞
Arab Intl Bank 6½-83	14½	2-3	100¼	100⅝
Banco Serfin 7¼-86	15 11/16	10-5	92	94
Bco de la Nacion 8-83	14⅝	1-26	96	97
Bco de la Nacion 7-86	15 7/16	9-24	92	94
Bco de la Nacion 6-87	15 5/16	10-25	90	92
Buenos Aires 7¼-86	15 1/16	12-7	96	97
Bco di Roma 6-87/91	15 1/16	10-28	99⅞	100⅛
Bco Desarollo 9½-87	15½	12-13	94	95
Bco Nl Mexico 6¼-87	14⅞	11-17	90	92
Bco Nl Mexico 5¼-92	13 5/16	2-7	90½	92½
Bco Pinto 6¾-85	15	11-18	97¾	98½
Banco Union 7¼-83	16	10-1	99	100
Bangkok Bk 6¼-84	17 3/16	12-29	99¾	100½
BFG Fin 5½-89/94	16 1/16	1-13	99	99¾
Bk Ireland 5¼-87	11 1/16	11-30	98¾	99¼
Bk Ireland 5¼-92	14 7/16	1-24	98½	98⅞
Bk Montreal 5¼-90	15⅞	12-28	98¾	99½
Bk Montreal 5¼-91	15⅛	10-29	97¾	98½
Bk Scotland 5¼-92	15⅞	9-23	99	99⅜
Bk N Scotia 5¼-88/93	15⅛	10-29	98⅞	99⅛
Bk Nova Scotia 5¼-94	16¼	1-18	98⅝	99⅛
Bk Tokyo Hdg 6½-84	15	11-18	100⅝	101
Bk Tokyo Hdg 1987	14 9/16	1-26	100⅛	100½
Bk Tokyo Feb1988/91	13⅜	2-4	99⅞	100¼
Bk Tokyo Dec1988/91	15¼	12-10	99⅞	100¼
Bk Tokyo Hdg 5¼-89	13 1/16	10-27	99¼	99⅝
Bk Tokyo Hdg 5½-93	15 11/16	10-21	99½	100⅛
BBL Intl 5	15 1/16	11-22	100⅛	100½
Bq Ext Algerie 8⅝-84	14⅛	2-9	100	100½
Bq Afrique Occ 6½-83	15	1-17	99¾	99⅞
BUE 5¼-89	16¼	9-20	99⅛	99½
Bk Worms 5⅜-85	15⅞	12-17	100⅛	100¾
Bk Worms 1994	13⅜	2-4	98⅝	99¼
BFCE 6½-83	15¼	10-29	100	—
BFCE 6⅝-84	15⅞	8-26	99⅞	100⅛
BFCE 5¼-87	14	1-27	99⅞	100¼
BFCE 5¼-88	15	10-28	99½	99⅝
BNP 7-83	12⅝	1-3	99⅞	100¼
BNP 5¼-83	14 13/16	1-21	100¼	—
BNP 1982/84	11½	2-21	99½	99⅞
BNP 5¼ 85/88	13 5/16	10-29	99½	99⅞
BNP 5¼-89	15 3/16	11-8	98⅝	97¼
BNP 5⅛-87	15⅜	9-22	99⅝	99¾
BNP 5½-91	11½	2-22	98½	98⅞
BNP 1996	15¼	12-13	99⅞	100¼
Barclays O'seas 5-90	15⅞	12-15	100⅝	101⅛
Barclays O'seas 5-95	14 9/16	1-31	99⅞	100¼
Bergen Bank 6-89	11 1/16	11-30	99⅛	99½
Bergen Bank 5¼-88/97	15⅝	10-15	99	99⅝
CEPME 5¼-89/92	15 7/16	12-10	100	100⅜
Citicorp 1983	10¾	11-30	99½	99⅞
Citicorp 1984-RRN	10¾	9-30	99⅞	100
Citicorp 6-94	15 5/16	9-10	99¼	99¾
Citicorp undtd	15 9/16	10-13	100⅛	100½
Citicorp 1984-ex wt	11½	12-2	99⅛	99½
Chemical 5¼-94	16 11/16	9-23	98⅞	99¼
Contil 5¼-94	16⅜	9-24	96⅛	97¼
Chase 5¼-93	14 7/16	1-31	98¾	99⅛
CIBC 5¼-94	15¼	1-17	97½	98¼
Christiania Bk 5¼-91	12½	11-5	98⅞	99¼
CCCE 5¼-88	13⅜	2-9	99¼	99⅝
CCCE 5¼-92	15⅝	9-13	98¼	98⅝
Credit Agricole 6½-84	15⅞	12-17	100⅝	101
Credit Agricole 5¼-97	15 7/16	9-24	99¼	99⅝
CNT 1990	15⅞	10-21	99½	99⅞
CCF 7-83	16 1/16	1-13	101⅛	101½
CCF 6½-83	16 1/16	1-13	101⅛	101½
CCF 5¾-85	15 5/16	11-8	100¼	100⅝
CCF 89/96	14¾	11-29	99¾	100
Creditanst 5¼-84	15	11-24	100⅝	100¾
Creditanst 5½-91/97	15 7/16	9-16	99⅛	99½
Credit Lyon 6-83	13 15/16	2-17	100¼	—
Credit Lyon 5¼-87	15⅝	9-20	99¾	100⅛
Credit Lyon 5¼-89/94	16 15/16	1-4	100½	100⅞
Credit Lyon 5¼-97	16	10-1	99⅛	99⅝
Credit Nat'l 5¼-88	14 13/16	1-17	99⅞	100¼
Credit Nat'l 5¼-94	14 11/16	9-9	98⅝	99¼
Credit Nord 1989/92	16 13/16	12-23	100	100⅜
DG Bank 6¼-82	15⅝	12-17	100	—
Den Norsk 6-Nov90	12½	11-5	99¼	99⅝
Den Norsk 6-Dec90	15 13/16	9-17	99¼	99⅝
Eulobank 1989	16⅜	12-24	97½	98¼
Girozentrale 5¼-91	16¾	9-23	99⅛	99⅝
Gotabanken 6-88	15	11-18	100¼	100⅝
GZB 6-83	15¼	10-13	100	100⅜
GZB 5½-89	12½	11-5	99⅜	99¾
GZB 5¼-92	14 15/16	9-8	98½	98⅞
IBJ 5½-85	14¾	12-3	100⅝	101
IBJ 5¼-87	15¼	10-15	99⅞	100¼
IBJ 5¼-88	15⅜	10-13	99⅞	100¼
IBJ 5¼-Nov 88	14⅞	11-18	99½	99⅞
Indo-Suez 5½-85	14 1/16	1-27	100⅛	100⅞
Indo-Suez 5¼-89	16 1/16	1-13	100½	100⅞
Westminster Bk 6-84	15 5/16	10-22	100¼	100½
KOP 5½-92	15 5/16	11-8	99⅝	100
Kleinwort Ben 5¼-91	12 13/16	11-17	99⅛	99½
Korea Ex Bk 7½-85/88	16	10-1	99¾	100⅜
Korea Dev.Bk 7½-81	14 13/16	12-3	99	99¾
LTCB 6-83	13 15/16	2-15	100⅛	—
LTCB 5¼-85	14½	11-12	100	100⅜
LTCB 5¼-86	15 5/16	12-15	100¾	101⅛
LTCB 5½-89	15¼	12-9	100⅝	101
LTCB 5½-Jly 89	15 9/16	1-18	100¼	100¾
LTCB 5¼-92	14⅝	11-29	99⅝	99¾
Lloyds Eurofin 7¼-83	14⅝	11-30	100¼	101⅛
Lloyds Eurofin 5¼-92	15	12-6	99⅞	100¼
Lloyds Eurofin 5¼-93	15 3/16	10-29	99⅝	99¾
ManHan O'seas 5¼-94	10 15/16	11-30	98⅝	98¾
Midland Intl 6-87	15⅛	11-24	100⅝	101
Midland Intl 5-89	16 13/16	12-22	101¼	101⅝
Midland Intl 9-91	15 3/16	10-29	99½	99⅞
Midland Intl 5¼-92	15 1/16	7-12	100	101¼
Midland Intl 5½-93	14⅝	1-26	100¼	100⅝
Mort Denmark 5¼	15⅞	12-17	98⅝	99⅜
Morgan 5¼-97	12 15/16	11-12	99	99⅜
Nat'l Westmin 5½-90	16⅜	12-23	100⅜	100¼
Nat'l Westmin 5¼-91	15⅛	1-17	100¼	101⅛
Nat'l Westmin 5¼-92	15 3/16	10-25	99½	99⅞
Nat'l Westmin 5¼-94	15 15/16	10-14	99½	99⅞
Nippon Credit 5¼-85	16⅜	12-24	100⅛	—
Nippon Credit 6½-86	14⅝	1-14	100¼	100½
Nedlibra Fin 5⅝-88	12 1/16	12-7	98	98½
Nacional Fin 5¼-86	16⅜	12-24	92	—
Nacional Fin 5½-85/91	15 5/16	9-27	90	92
Nacional Fin 6-85/93	17 5/16	7-7	98	99
Nordic Intl 5¼-91	15¼	11-8	98¾	99⅛
Oesterreisch Bk 5¼-86	14⅝	11-18	99⅞	100¼
Pk Banken 5-88/91	15 13/16	12-17	100¼	101⅝
Bk Scotland 7½-83	14⅞	11-12	100⅛	—
Bk Scotland 5¼-86/94	14¾	10-14	99⅞	100¼
Security Pac 5¼-88/91	15	11-24	99¾	100⅛
Sanwa Intl Fin 5¼-88	15 5/16	9-24	99¼	99⅝
Ste Generale 1990/95	12 3/16	9-1	99	99⅜
S.G. Alsac 5¼-89/91	15 3/16	1-15	100⅛	100½
SGB 5¼-87	15 3/16	10-29	99⅝	100
SGB 1989/92	17¼	12-30	100¼	101⅛
Stand. & Chart. 6¾-84	14⅞	11-30	100⅝	100¾
Stand. & Chart. 5½-90	13 5/16	2-16	100¼	100⅝
Stand. & Chart. 5¼-90	14⅞	9-9	99¾	100⅛
Stand. & Chart. 5¾-91	14⅞	11-18	99⅜	99¾
State Bk India 6⅝-87	14⅞	11-30	98⅝	—
Sumitomo Fin 5½-88	13½	2-9	99½	99⅞
Svenska Handels 5-87	15 5/16	1-17	100¾	101⅛
Sparebanken 6-87	16⅜	12-21	100	100⅜
Ste Fin Europ 5¼-88	14⅝	11-19	98	98⅝
Ste Cent Baue 6½-87	15 11/16	10-5	99	99⅝
Sundsvallsbken 6-85	15 11/16	10-8	99¾	100⅛
Trade Develop 6-86	11⅜	2-24	98⅞	99⅝
Thai Farmers 7¼-84	16⅞	12-23	98¾	100
Toronto Dom 5¼-92	14 5/16	2-11	98⅛	98⅝
UBAF 7¼-82	15 3/16	12-9	100	—
Union Norway 6-89	16 5/16	1-10	99½	99⅞
United O'seas 6-83	14 9/16	11-12	100	—
United O'seas 6-89	17¼	9-30	99⅝	100
Urquijo Intl 6-86	15½	9-29	99⅛	99½
Wil. Glyn's Bk 5¼-91	15 5/16	9-16	99¾	100⅛
Zentralspark. 5¼-91	16½	1-12	100½	101⅞

Non Banks

Issuer-Min cpn-Mat.	Coupon	Next	Bid	Askd
Azienda 5¼-98	13 13/16	2-17	97¾	98¾
Alfa 10-88	15 5/16	9-20	80	85
C.F.De Electr.5¼-88	15	11-10	92	94
Enpetrol 7-86	15⅝	9-23	99¼	—
Ind. Penoles 10-86/89	15⅝	10-19	97½	98½
Eurofima 5¼-89	15 7/16	9-29	99	99⅜
IC Industries 1991	15 7/16	1-17	94⅛	95⅛
ICO 5½-89/92	16 5/16	1-10	99⅝	99⅞
IHI 5⅝-85	15⅝	10-27	100½	100⅞
C. Itoh 5¼-87	15 11/16	9-20	99⅞	100¼
InvCp India 6½-91	15 9/16	12-16	96¾	97½
Thailand 7-84	15 5/16	9-17	99¾	100
Malaysia 5¼-87/92	15 11/16	10-6	99½	99⅞
New Zealand 5¼-87	15 9/16	10-7	99½	99⅞
Philippines 6½-86	15⅝	10-21	97¼	98¼
SNCF 5¼-88	12 15/16	10-28	98	98⅝
Sumi Heavy 5½-84	15 13/16	9-13	99½	—
Sweden 5¼-89	11 13/16	2-28	98¾	99⅛
Sweden 9lock-91	14½	10-21	98⅝	99⅛
Saftel 8-83	16 3/16	10-8	100	—
Texas Airlines 7-86	15 5/16	10-14	80	85
TVO 9lock-91	14⅞	11-30	90	95
Offshore Min. 1986	14 13/16	1-21	100¼	100⅝
Offshore Min. 5¼-91	14 13/16	12-2	99⅞	100¼
Private I.C.Asia 7-86	14⅝	2-10	99¼	100
Pemex 7-84	14 1/16	1-27	95	96
Pemex 6-88/91	15 11/16	10-8	91	93
Tubos Mexico 1989	14 9/16	1-27	96	97
Vitro 1988/91	15¼	1-21	90	95

Prices supplied by Credit Suisse-First Boston Ltd., London.

COMPANY REPORT

Revenue and profits, in millions, are in local currencies unless otherwise indicated.

Australia

Western Mining

Year	1982	1981
Revenue	265.28	303.64
Profits	6.94	57.97
Per Share	0.025	0.226

World Bank Sets $250-Million Bond

Reuters

LONDON — The World Bank is raising $250 million through a five-year Eurobond, lead manager Deutsche Bank said Monday. The noncallable bond carries a 13¼ percent coupon and was priced at 99¾ percent to yield 13.32 percent.

Japan Synthetic Rubber is issuing a 50 million Deutsche mark Eurobond with warrants, the first such offering for a Japanese company on the West German capital market, lead manager Berliner-Handels und Frankfurter Bank said Monday.

The 5½-year issue, guaranteed by the Industrial Bank of Japan, will be priced next Monday but will probably carry a coupon of 7½ percent. Each 5,000-mark bond is likely to carry two warrants, each entitling the holder to buy 1,000 shares in JSR at any time during the life of the bond.

The New York Times

Ian MacGregor in his office on London's south side of the Thames River

MacGregor Sees No Easing in Bid To Boost British Steel Productivity

By Steven Rattner
New York Times Service

LONDON — Twenty-eight months after British Steel Corp. reached outside the country and chose Ian MacGregor, a New York investment banker born in Scotland, to be its chairman, the company has been transformed.

Productivity, the bane of British manufacturing, surged after employment was cut to 96,000 from 178,000 early in 1980, and sales increased slightly last year. Perhaps most important, the company's operating loss, which was running at the rate of £15 million ($25.9 million) a week as recently as early 1981, has dropped to about £2 million a week.

At the same time, British Steel is a company facing many challenges. The continuing recession has caused steel shipments to fall sharply this summer, and losses have increased. That, combined with the U.S. efforts to restrict steel imports, has jeopardized British Steel's goal of breaking even during the current financial year.

And despite all the productivity improvements, British Steel's efficiency is still only about 60 percent of that of Japanese producers.

"We've got a long way to go to get our efficiencies up to the levels that I would like to see," Mr. MacGregor said in an interview. "I see no reason why our people cannot be as efficient as anyone else."

For the most part, Mr. MacGregor's efforts enjoy wide support in the financial community and in Prime Minister Margaret Thatcher's administration, which hired him. But some steel experts, including labor leaders, believe Mr. MacGregor's retrenchment has been too drastic.

"He's been good at swinging the ax and smiling while he does it," said Sandy Feather, a national officer of the Iron and Steel Trades Confederation. "But we think he has already gone too far."

But Mr. MacGregor plans to continue his reorganization. The other day, British Steel announced a plan to eliminate 1,700 more jobs in the steel industry in Scotland and at Sheffield, England.

"I don't see any reason why we should discontinue our efforts," Mr. MacGregor said. "If anything, we have to step them up."

The history of British Steel illustrates the worst of the problems that have plagued British industry. Since World War II the company has been nationalized twice and denationalized once. And the Thatcher administration would like to see British Steel go private again, but that will not be a realistic move until profits return.

Profits Then Losses

As well, British Steel became embroiled in a political controversy in the 1970s over its desire to close inefficient plants.

Throughout the early 1970s the company eked out only minimal profits, and large losses began to occur in its 1975-76 fiscal year. Meanwhile, steel production was falling, from 25.1 million tons in 1972-73 to 14.1 million tons in 1979-80, just before Mr. MacGregor's arrival.

Productivity was also deteriorating, and in the late 1970s the government finally agreed that wholesale plant closings were necessary. Productive capacity was brought down from 26 million tons to 15 million tons. But it was the arrival of Mr. MacGregor — and a debilitating three-month strike in early 1980 — that precipitated the most drastic cost-cutting.

A variety of tangential assets were sold off, another plant was closed and jobs at all others were cut with abandon. The result has been a remarkable increase in efficiency. In 1979-80 it took 13.2 man-hours to produce a ton of steel. In the first three months of 1982, only 7.6 man-hours were required for a ton of steel.

Steel-producing capacity was cut to 14.4 million tons a year, while production rose last year to 14 million tons from the low of 11.9 million tons reached the year before.

In addition to the job cuts, workers were persuaded to accept a wage freeze.

Along the way came some stunning losses: a record £668 million in 1980-81 and a further £358 million last year, plus nearly £498 million more in the two years for "extraordinary" costs, principally severance payments. British Steel has been receiving heavy aid from the government, but it is due to end in 1985.

The company was expected to be in the black by the end of the current financial year, but now there is doubt about this. "It's going to be very difficult to do," said Mr. MacGregor, who has hinted that he would like to stay another year after his three-year contract expires.

As for capacity, he added, "I want to see what the outcome of the American affair is, and I'd like to see whether, in fact, the American economy responds to the stimuli that have been injected into it."

Mr. MacGregor was alluding to Washington's effort to curtail U.S. steel imports from Europe. If the United States succeeds, he believes, the result will likely be sharper competition in Europe, lower prices and a tougher time for British Steel.

Mexico Press Gives Details On Debt Plan

Reuters

MEXICO CITY — Finance Minister Jesús Silva Herzog has said Mexico would pay only interest on its $65-billion public sector foreign debt until the end of next year, according to Mexican newspaper reports Monday.

Three leading dailies said Mr. Silva Herzog told Mexican reporters at the International Monetary Fund-World Bank meeting in Toronto that the total repayment would amount to $14 billion.

Mexico recently reached agreement with more than 100 foreign banks to delay by 90 days repayment of principal of about $10 billion. But there was no word of what would happen after that grace period expired.

Mr. Silvia Herzog was quoted as saying that Mexico's nationalization of its domestic private banks might delay agreement on $4 billion in financing from the IMF by a few weeks but that it would be signed eventually.

Mexico has devalued its peso and introduced exchange controls in recent weeks after running out of money to continue repaying its foreign debt, which at an estimated $80 billion for both public and private, is the world's biggest.

In Toronto, West Germany's finance minister, Manfred Lahnstein, told reporters Monday that the international banking system would face "extremely serious problems" if the IMF and Mexico did not reach a speedy agreement on the rescue package.

Another senior West European central banker described Mexico's debt problem as "extremely serious for the international financial system" and said that nationalizing private banks could not be expected to speed the IMF negotiations.

Mexico last week informed banks that they might have to accept "procedural delays" in interest payments and these arrears are now thought to be as much as $400 million, banking sources said, adding to the anxieties about the debts.

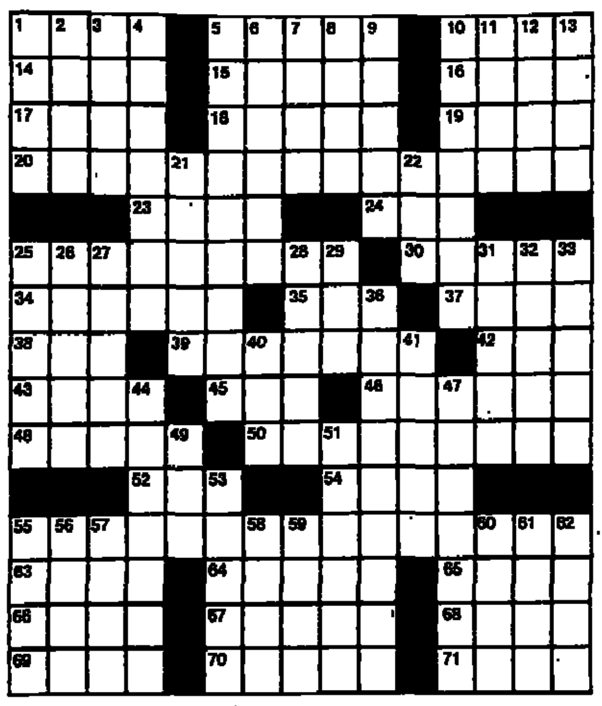
Mexico has asked commercial banks to put up $500 million to $1 billion in new cash as emergency aid in addition to a $1.85-billion rescue operation launched by central banks of leading industrial countries and coordinated by the Bank for International Settlements based in Switzerland.

Banks in turn have told Mexico that they will make new funds contingent on an agreement with the IMF. A 12-bank steering committee of main creditor banks is expected to meet in Toronto this week to review developments, sources said.

■ **Nationalized Banks Open**

The Associated Press reported from Mexico City that President José López Portillo hoisted Mexico's flag atop the Bank of Mexico headquarters Monday in a gesture symbolizing the first day of state-controlled banking.

CROSSWORD



ACROSS

1 Alcott girl
5 Campus orgs.
10 Auction signals
14 Inter —— (among other things)
15 Transplant in a nursery
16 Monad
17 Orison finale
18 Follow
19 Salad fish
20 Sayers's sleuth
23 Glen Gray's Casa —— Band
24 Compass point
25 Mechanic's garb
30 Western resort lake
34 Battery terminals
35 Old French coin
37 Glaswegian headgear
38 Alphabet trio
39 Spheres of influence
42 Ex-G.I.
43 Legal equal
45 Directory info
46 Comedian's foil
48 Tonsorial device
50 "Desire" of literature
52 One-liner
54 Coup d'——
55 N.Y.C. sleuth in a TV series
63 "Picnic" playwright
64 Flat
65 Bog
66 Crowd response
67 Reflection
68 Qualified
69 "Showboat" skipper
70 Meted out
71 Garish light

DOWN

1 Ancient Semitic deity
2 Sailor's saint
3 Layer
4 Manipulated
5 Member of a secret order
6 Fee set by a landlord
7 Church recess
8 Period of duty
9 Simmers
10 Edible kernel
11 Burden
12 Sup
13 Meet the raise
21 Burned midnight oil
22 Adherent: Suffix
25 Cavils
26 Beginning
27 Ballot marker
28 Minimum
29 Econ. or ecol.
31 Devastation
32 Last in a series
33 Ethyl acetate, e.g.
36 Up in the air
40 Jan. and Feb.
41 T-bone
44 Playful mischief
47 Footstool
49 A way to stand
51 Go back on one's word
53 Frozen
55 Money in Milan
56 Taking part
57 Minced oath
58 Verne's captain
59 Grandparental
60 Agree
61 Folk singer Guthrie
62 Sharp

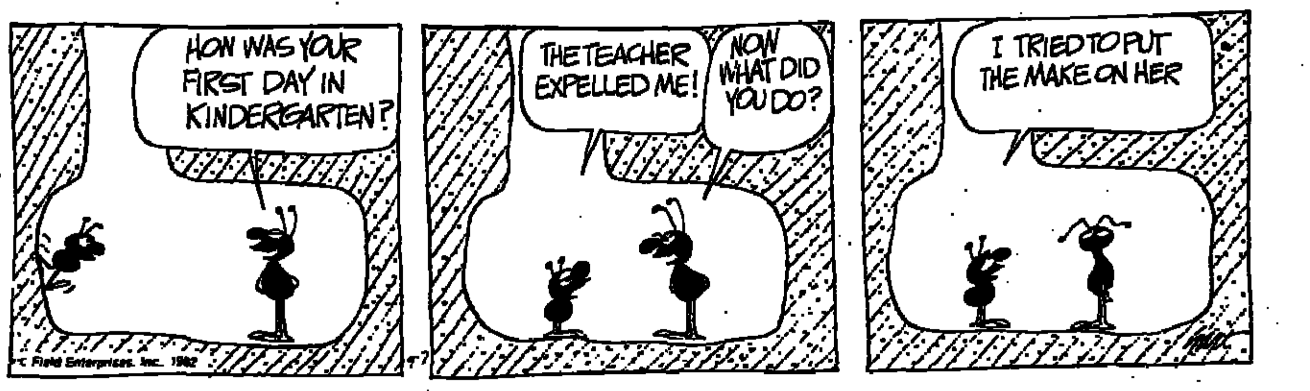
WEATHER

	HIGH C	HIGH F	LOW C	LOW F			HIGH C	HIGH F	LOW C	LOW F	
ALGARVE	23	73	18	64	Cloudy	LOS ANGELES	31	88	20	68	Fair
ALGIERS	28	82	19	66	Fair	MADRID	29	84	18	64	Fair
AMSTERDAM	20	68	15	59	Overcast	MANILA	30	86	23	73	Rain
ANKARA	23	73	9	48	Fair	MEXICO CITY	25	77	11	52	Cloudy
ATHENS	29	84	21	70	Fair	MIAMI	32	90	25	77	Stormy
AUCKLAND	17	63	10	50	Cloudy	MILAN	29	84	21	70	Cloudy
BANGKOK	34	93	25	77	Overcast	MONTREAL	20	68	11	52	Fair
BEIRUT	—	—	—	—	N.A.	MOSCOW	16	61	7	45	Cloudy
BELGRADE	32	90	14	57	Fair	MUNICH	23	73	17	63	Cloudy
BERLIN	28	82	15	59	Overcast	NAIROBI	24	75	13	55	Cloudy
BOSTON	25	77	15	59	Fair	NASSAU	31	88	23	73	Fair
BRUSSELS	20	68	17	63	Cloudy	NEW DELHI	35	95	25	77	Fair
BUCHAREST	28	82	12	54	Fair	NEW YORK	28	82	17	63	Fair
BUDAPEST	30	86	13	55	Fair	NICE	25	77	20	68	Fair
BUENOS AIRES	11	52	1	34	Overcast	OSLO	15	59	3	37	Fair
CAIRO	35	95	23	73	Fair	PARIS	20	68	15	59	Overcast
CAPE TOWN	17	63	10	50	Cloudy	PEKING	28	82	17	63	Fair
CASABLANCA	26	79	20	68	Fair	PRAGUE	25	77	14	57	Cloudy
CHICAGO	24	75	17	63	Stormy	REYKJAVIK	10	50	4	39	Rain
COPENHAGEN	12	54	9	48	Overcast	RIO DE JANEIRO	25	77	20	68	Fair
COSTA DEL SOL	29	84	18	64	Fair	ROME	35	95	19	66	Cloudy
DAMASCUS	35	95	20	68	Fair	SAO PAULO	19	66	14	57	Rain
DUBLIN	13	55	11	52	Overcast	SEOUL	27	81	20	68	Fair
EDINBURGH	12	54	8	46	Rain	SHANGHAI	29	84	22	72	Overcast
FLORENCE	30	86	20	68	Cloudy	SINGAPORE	29	84	23	73	Cloudy
FRANKFURT	23	73	18	64	Cloudy	STOCKHOLM	12	54	4	39	Cloudy
GENEVA	18	64	16	61	Stormy	SYDNEY	17	63	8	46	Cloudy
HARARE	20	68	10	50	Cloudy	TAIPEI	33	91	26	79	Cloudy
HELSINKI	14	57	3	37	Overcast	TEL AVIV	30	86	21	70	Fair
HONG KONG	33	91	25	77	Cloudy	TOKYO	23	73	20	68	Showers
HOUSTON	34	93	17	63	Cloudy	TUNIS	34	93	22	72	Fair
ISTANBUL	25	77	18	64	Fair	VENICE	26	79	19	66	Cloudy
JERUSALEM	32	90	20	68	Fair	VIENNA	29	84	17	63	Cloudy
LAS PALMAS	23	73	18	64	Cloudy	WARSAW	26	79	10	50	Cloudy
LIMA	27	81	11	52	Cloudy	WASHINGTON	28	82	18	64	Fair
LISBON	23	73	16	61	Fair	ZURICH	17	63	16	61	Overcast
LONDON	16	61	15	59	Rain						

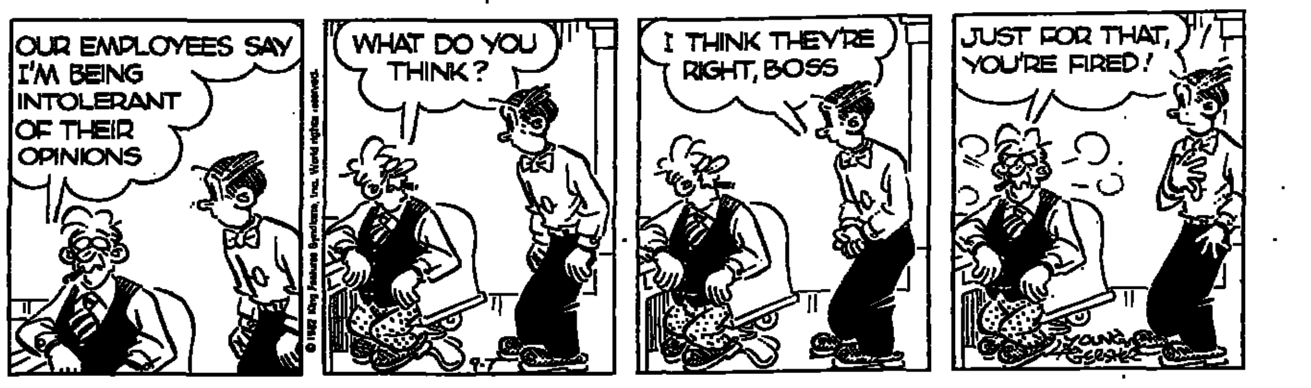
Readings from the previous 24 hours.

PEANUTS

B.C.

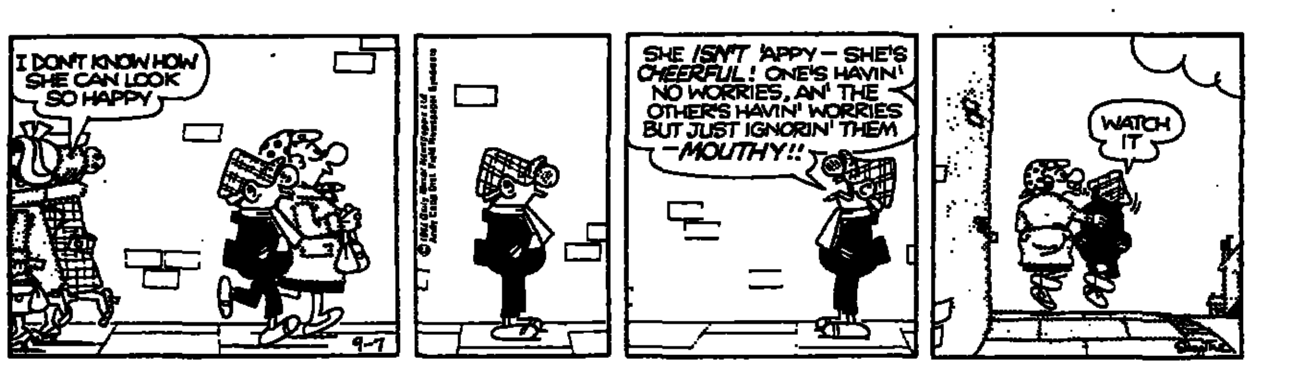


BLONDIE



BEETLE BAILEY

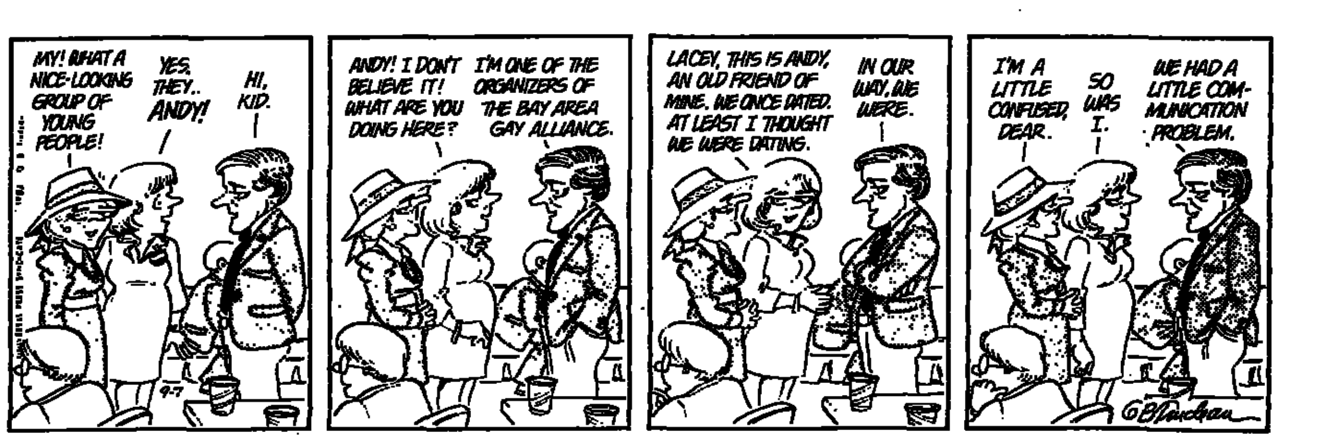
ANDY CAPP



WIZARD of ID

REX MORGAN

DOONESBURY



JUMBLE THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

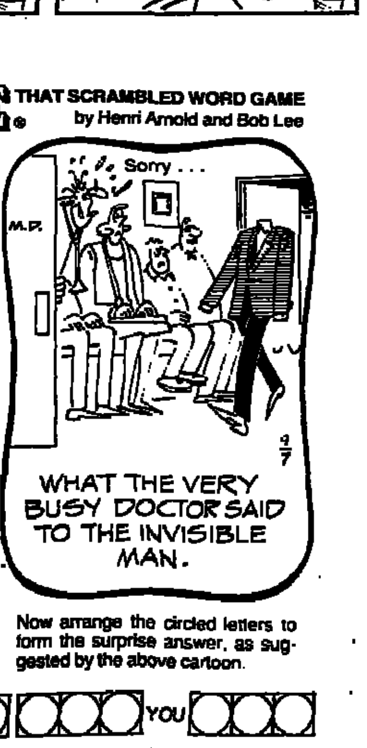
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

MUTON

KNAWE

TEASTE

ACLOSE



Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer: "YOU"

(Answers tomorrow)

Yesterday's Jumbles: FIFTY PANSY APPEAR PAROLE
Answer: What you might get from pirates— A "SEA TRIP"

DENNIS THE MENACE

"I DON'T EVER WANT TO BE PROMOTED UNLESS YOU'RE PROMOTED, TOO!"

Imprimé par Offprint, 73 rue de l'Evangile, 75018 Paris

BOOKS

POST-CONSERVATIVE AMERICA

People, Politics, and Ideology in a Time of Crisis

By Kevin Phillips. 261 pp. $14.50. Random House, 201 East 50th St., New York, N.Y. 10022.

Reviewed by Robert Lekachman

KEVIN PHILLIPS, the conservative publicist whose 1968 book "The Emerging Republican Majority" accurately identified the shift of political gravity from the frost belt to the "Sun Belt," here examines the health and prospects of his 14-year-old brain child. I should warn readers at the outset that Phillips has become something of a deep thinker, prone on slight provocation to cite Arnold Toynbee, Oswald Spengler, Fernand Braudel, Milton Friedman, and J.K. Galbraith, not to mention Arthur Laffer, Michael Novak, and George Gilder, on such weighty themes as the decline of civilizations and the quality of national character. As pundits will, Phillips entertains himself with shaky historical parallels between contemporary America and Weimar Germany and between recent inflation and the price revolution in 16th-century Europe. To his credit, Phillips tends to cast a skeptical eye upon his own speculations so little harm is done.

What I find fascinating in this clearly and provocatively written volume is the fragility which Phillips now discerns in the Sun Belt populism which propelled Ronald Reagan into the White House. Like all coalitions this one is subject to stress. Its major components include born-again Christians deeply distressed by the performance of that born-again president Jimmy Carter, retirees from chillier climates, entrepreneurial types also from the north, and traditional patriots and upholders of family and flag who are comfortable with traditional Southern attachment to military virtues and the army bases, defense contracts, and aerospace facilities which undergirded the Sun Belt economy even before OPEC marked up the prices of the region's oil and gas. To the Sun Belt conservative constituencies, Ronald Reagan added northern ethnics fearful of crime and enraged by "social engineering," frost belt evangelical Christians (an increasing minority), and those of the elderly who stick it out in the New England and midwestern snows. Reagan also retained the votes of most GOP moderates and traditional budget-balancing conservatives.

The New Deal coalition dominated American politics between 1932 and 1952 or, perhaps, right up to the election of Richard Nixon in 1968. Why shouldn't the Republican coalition endure for a similar span of time? Phillips perceives incipient cracks already threatening the Reagan new order. Unless economic growth resumes at healthy rates, the interests of the elderly will conflict (perhaps they already do) with those of young workers compelled to support out of social security and medicare deductions from their paychecks a rapidly growing cohort of pensioners who tend discouragingly to live longer and longer.

In other words, the centerpiece of the Reagan revelation — its cherished combination of supply-side tax cuts and restrictive monetary policy — threatens the future of the Republican party. If, darkly broods Phillips, four years of Republican economic failure succeed a similar spell of Democratic bungling, then the possible consequences include a shift in the direction of right-wing authoritarianism, our very own version of fascism (the Weimar parallel) or, more likely, decomposition of both major parties and the splintering of our politics among a collection of relatively small parties. Phillips is surprisingly impressed with the John Anderson phenomenon. Even though his independent candidacy collected in 1980 only 7 percent of the popular vote, Phillips thinks that the Anderson constituency, the quiche and Chablis suburban types, can potentially be converted into a party similar in size and influence to Roy Jenkins' British Social democrats.

Up for Grabs

In other words, for the rest of this decade at least, American politics are up for grabs. Phillips thinks that among the additional possibilities is revival of economic radicalism in the train of persistently high unemployment and spreading farm and business bankruptcies — a cheering note for citizens somewhere to the political left of Ronald Reagan. Still another entry is corporatism, an alliance between government and business in the interest of economic recovery. Corporatism currently comes in two flavors, John Connally's conservative mix and the comparatively liberal Felix Rohatyn alternative.

After so much intrepid crystal-gazing, Phillips is disappointingly conventional in his chosen remedies. He joins the critics of separation of powers between executive and legislative branches and endorses a shift toward parliamentary models which yoke power to responsibility. When Margaret Thatcher proposes a budget, the House of Commons obediently endorses it. She and her ministers, after all, constitute a substantial fraction of the Conservative vote in Parliament. Not so here. If Congress nerves itself actually to enact a budget this year, its resemblance to the document David Stockman presented in February will be only coincidental.

MIT's notoriously liberal political scientist Walter Dean Burnham praises Phillips (on the dustcover) as "one of about five people in the United States who have a really good understanding of American electoral politics." I am inclined to agree, partly because Phillips' imputation of central importance to Reaganomics strikes me as valid and, for the rest, because I admire any writer whose analysis is at variance with his preferences. Although Phillips is as conservative as ever, he sees scant hope for the current political vehicle of his principles. I sincerely hope that he is right and that Reagan-style conservatives will shortly come to be perceived as the wave of the past.

Robert Lekachman teaches economics at the City University of New York. His most recent books are "Capitalism for Beginners" and "Greed is Not Enough: Reaganomics." He wrote this review for The Washington Post.

Solution to Previous Puzzle

SEAL ROLL BARB
CARTA OBIE ELIA
ORION PETTYCASH
PINMONEY TEASES
ILES SEAM
SPECIE ARREARS
ALLAN WIDEN THE
BALL BROAD BLIN
ONE SLANT GRAND
TENSPOT ERASES
TUSH ADES
EDGARS TREASURE
BANKNOTES SHREW
ALAE MILO EAGLE
NETS SEEN STES

CHESS

By Robert Byrne

IT DOESN'T take much to make a bishop bad — one of its own key center pawns immobilized on a square of the same color as those on which the bishop travels is enough.

What this means is that the bishop must play the entire game in a purely defensive role, and if the opposing minor piece is a knight, the difficulty is compounded. Because the knight can play to squares of either color, it can adapt itself beautifully to exploit a weak color complex.

Even a world champion such as Anatoly Karpov of the Soviet Union is not exempt from such considerations of strategy, as can be seen in his fifth-round encounter with Jan Timman, a Dutch grandmaster, in the Clarin International Tournament in Mar del Plata, Argentina.

Anyone who chooses the aggressive Keres Attack with 6 P-KN4 must not get bogged down after 6 . . . P-KR3 but proceed vigorously either with 7 P-N5, PxP; 8 BxP, or with 7 R-KN1, B-K2; 9 P-KR4 followed by 10 P-N5. But Karpov's treatment of the opening was unaccountably passive.

Timman's strategy of working against Karpov's muffled KB was to be seen in his 13 . . . N-Q2! and 14 . . . B-N4!, culminating in the removal of White's effective minor pieces with 16 . . . BxN; 17 PxB and 19 . . . BxB; 20 PxB.

Whereas Timman had no trouble using his active knight for attack on the white king with 25 . . . N-R5, Karpov could not produce counterplay. Thus, after 26 Q-N3, R-B4!, Timman pointed out that an attempt to work on the KN file with 27 KR-N1 would have been shot down by 27 . . . KR-B1; 28 P-B3, Q-R4 (threatening 29 . . . NxP!, as well as 29 . . . NxPch! or 29 . . . R-N4); 29 B-K2, RxBP!; 30 PxR, NxPch; 31 K-R1, NxB, retaining the attack with bishop plus two pawns for a rook.

Timman's pawn assault with 30 . . . P-QN4 culminated in the breakthrough with 36 . . . P-N5, forcing open a file against the white king. Had the champion tried to block it with 31 Q-N4, the tournament winner could have forced his way through with 31 . . . R-R2; 32 Q-R5, P-N5! 33 QxNP, R-N2; 34 Q-R3, RxNP, with a powerful attack.

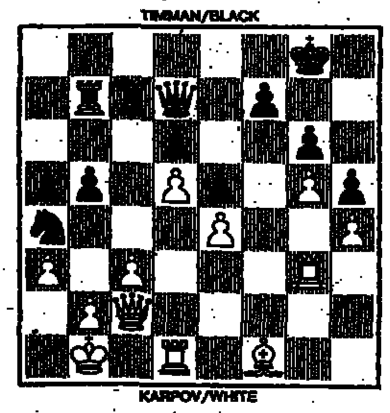
On 37 RPxP, PxP; 38 P-B4, P-N6! Karpov could not accept the sacrifice since 39 RxP?, RxR; 40 QxR, NxP! wins material.

After 41 . . . N-B4, there was no use defending by 42 R-K3 because 42 . . . R-R5; 43 K-B1; R-R7; 44 R/3-K1, N-R5 wins a decisive pawn. Also in this variation, 44 R/1-K1, R/2-R2; 45 B-R3, R/2-R5; 46 B-B1, K-B1 puts White into zugzwang. So Karpov gave up his KP with 42 K-B1, NxP, hoping to activate his king.

On Timman's 44 . . . N-R5!, defending with 45 R-N1, N-N3; 46 K-B3? would have permitted 46 . . . NxPch. But after Karpov's 45 R-B1, Timman sharply grabbed another pawn with 45 . . . NxP!, ready for 46 K-B3, NxP!; 47 KxR, P-N7; 48 R/3-B3, PxR/Q; 49 RxQ, R-N2ch!; 50 K-R4, N-K6 with a winning ending.

Karpov played 51 K-K1, but, with a material disadvantage too great to overcome, he gave up without waiting for Timman's reply.

TIMMAN/BLACK



KARPOV/WHITE

Position after 36 Q-B2

SICILIAN DEFENSE

White Karpov	Black Timman	White Karpov	Black Timman
1 P-K4	P-QB4	27 R-R3	KR-B1
2 N-KB3	P-K3	28 P-B3	R/1-B2
3 P-Q4	PxP	29 K-R1	Q-Q2
4 NxP	N-KB3	30 B-K2	P-QN4
5 N-QB3	P-Q3	31 P-B3	P-QR4
6 P-KN4	P-KR3	32 K-N1	R-N2
7 R-KN1	B-K2	33 R-N3	P-N5
8 B-K3	N-B3	34 P-N5	P-R4
9 B-K2	P-QR3	35 B-B1	R/4-B2
10 Q-Q2	NxN	36 Q-B2	P-N5
11 QxN	P-K4	37 RPxP	PxP
12 Q-Q2	B-K3	38 P-B4	P-N6
13 B-B3	N-Q2	39 Q-N2	R-N5
14 N-Q5	B-N4	40 Q-R3	QxQ
15 0-0-0	R-QB1	41 RxQ	N-B4
16 K-N1	BxN	42 K-B1	NxP
17 PxB	N-B4	43 B-K2	N-B4
18 R-R1	Q-B3	44 K-Q2	N-R5
19 B-N2	BxB	45 R-B1	NxP
20 PxB	Q-R5	46 P-R5	R-QBch
21 B-B2	0-0	47 K-K2	RxRP
22 Q-K1	Q-Q1	48 RxR	PxR
23 P-K4	Q-N3	49 RxNP	N-B5
24 Q-K3	Q-N4	50 R-QB3	RxRP
25 P-KR4	N-R5	51 K-K1 & Resigns	
26 Q-N3	R-B4		

SPORTS

Nastase Nips Kriek To Gain 4th Round

Compiled by Our Staff From Dispatches

NEW YORK — For the purists, John McEnroe's straight-set victory over Vince Van Patten in Sunday's third round of the U.S. Open tennis tournament was noteworthy. For the upset-minded, the defeats of Bettina Bunge, Chip Hooper and Fritz Buehning merited more than routine consideration.

And then there was Ilie Nastase's five-set victory over 10th-seeded Johan Kriek of South Africa.

At 36, with many of his best shots behind him, the irrepressible Nastase skillfully softballed an impatient Kriek and also won the cheers of 20,787 spectators. In the past, crowds here have jeered his behavior.

Some of his peers and friends showered Nastase with confetti when he returned to the players' lounge after his 4-6, 7-6, 6-7, 6-3, 6-2 outing. For all his fines and run-ins with officials, he has been popular with rivals over the years, and it has been a long time between such satisfying moments for the 1972 open champion.

Nastase will face longtime friend Jimmy Connors, seeded No. 2, in the fourth round. Locked at one-set-all with Jimmy Arias on Sunday, Connors came from 1-4 in the third set, sweeping nine games and winning, 6-4, 4-6, 6-4, 6-1.

Chris Evert Lloyd sailed past Kate Latham, 6-2, 6-1, Sunday despite an overnight attack of cramps and nausea, apparently from food poisoning, that had brought her close to defaulting.

Eight teen-agers reached the last 16 of the women's singles. Two unknown amateurs, Gretchen Anne Rush and Elise Burgin, made their presences felt. Rush, a freshman at Trinity College in Texas, defeated Jennifer Mundel of South Africa, 7-6, 6-3. Burgin, a 20-year-old student at Stanford, eliminated the ninth-seeded Bunge, 7-6, 7-6.

Hooper's 6-7, 6-4, 7-6, 6-3 loss to Tom Gullikson and Buehning's 7-6, 3-6, 6-2, 6-2 setback by Jaime Fillol again demonstrated that Grand Slam championships require more than one good day in the sun.

But the match that typified the something-for-everyone day was Nastase vs. Kriek. There was solid shotmaking, 21 double faults by Kriek, such dramatic elements as Nastase's squandering a 5-0 second-set lead and then winning a tie breaker (7-2) and even comic relief.

The longer the match lasted — even after Kriek had taken the third-set tie breaker, 10-8 — the worse it became for him. Nastase remained calm and enjoyed his unaccustomed spectator support. On the court where he created an ugly scene in a losing match against McEnroe three years ago, Nastase held himself together, even after Kriek had broken for a 2-0 lead in the fifth set. Nastase verbally peppered a side linesman for calling Kriek's serve an ace at match point — he was fined $1,000 for the outburst — but never really lost control.

By contrast, Kriek sprayed ground strokes, volleys and smashes and could not contain his impatience.

It has been a long time since Nastase had played so youthfully, so resiliently (only five unforced errors, none in the last two sets). Asked if it would be fair to call him an old man, he spryly replied: "Depends for what?"

Buehning had upset fifth-seeded Vitas Gerulaitis on opening day. At 36, like Nastase, he is no threat to win here, but he was patient and skillful enough to stay in rallies and gradually let Buehning's concentration and game come apart.

Hooper won a five-set serve-and-volley shootout from Roscoe Tanner in Friday's second round. Gullikson wisely shunned such tactics and chipped returns, forcing the 6-foot-6-inch Hooper to bend for first volleys.

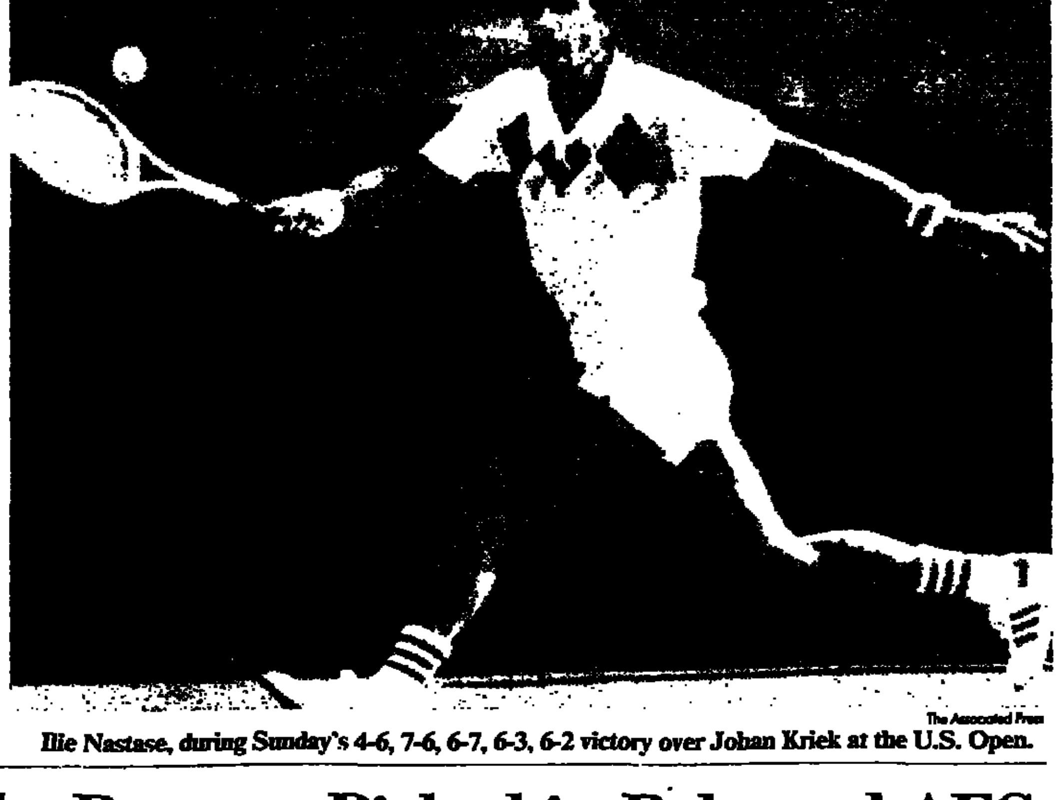
McEnroe's 6-3, 6-2, 6-3 victory over Van Patten was his most impressive performance in the tournament, not only for consistent shotmaking but also for concentration. "It's the best I've felt in the three matches," said the top-seeded defending champion.

MEN'S SINGLES
Third Round

John McEnroe, U.S. def. Vince Van Patten, U.S., 6-3, 6-2, 6-3; Guillermo Vilas, Argentina, def. Mike DePalmer, U.S., 6-3, 7-5, 4-6, 6-1; Eliot Teltscher, U.S. def. Chris Lewis, New Zealand, 4-6, 7-6, 6-3, 6-0; Tom Gullikson, U.S. def. Chip Hooper, U.S., 6-7, 6-4, 7-6, 6-3; Jaime Fillol, Chile, def. Fritz Buehning, U.S., 7-6, 3-6, 6-2, 6-2; Jimmy Connors, U.S., def. Jimmy Arias, U.S., 6-4, 4-6, 6-4, 6-1; Ilie Nastase, Romania, def. Johan Kriek, South Africa, 4-6, 7-6, 6-7, 6-3, 6-2; Rodney Harmon, U.S., def. Scott Davis, U.S., 3-6, 6-4, 6-4, 7-6.

WOMEN'S SINGLES
Third Round

Andrea Jaeger, U.S., def. Andrea Temesvari, Hungary, 6-3, 6-2; Kathy Rinaldi, U.S., def. Duk Hee Lee, South Korea, 6-2, 6-1; Bonnie Gadusek, U.S., def. Wendy White, U.S., 6-2, 6-3; Wendy Turnbull, Australia, def. Claudia Kohde, West Germany, 7-5, 5-7, 6-3; Elise Burgin, U.S., def. Bettina Bunge, U.S., 7-6, 7-6; Gretchen Rush, U.S., def. Jennifer Mundel, South Africa, 7-6, 6-3; Zina Garrison, U.S., def. Heather Crowe, U.S., 6-2, 7-5; Chris Evert Lloyd, U.S., def. Kate Latham, U.S., 6-2, 6-1.



The Associated Press

Ilie Nastase, during Sunday's 4-6, 7-6, 6-7, 6-3, 6-2 victory over Johan Kriek at the U.S. Open.

Jets, Bengals, Broncos Picked in Balanced AFC

By Gerald Eskenazi
New York Times Service

NEW YORK — Last season's National Football League results are meaningless. Even the American Football Conference has no perennial powers any longer.

The AFC traditionally is the conference of the quarterback, of the long pass play, of instant gratification. For better or for worse, parity has replaced powerhouses, so this season there will be a conservative trend.

NFL PREVIEW

Following is a preview of the AFC, with the teams listed in predicted order of finish.

Eastern Division

N.Y. Jets

Don't expect another 0-3 start. The Jets finished last year with the fifth best record in the NFL (10-5-1). They did it sparked by the most awesome pass rush in the game.

That rush may be mightier this season. The ends are Joe Klecko — some opponents already consider him the greatest they have faced — and Mark Gastineau, at 6 feet 5 inches and 270 pounds the fastest lineman in the NFL.

Strengths — Defensive line; outstanding offensive line when healthy. Experienced receivers. Quarterback Richard Todd coming off good season.

Weaknesses — Center Joe Fields injured. Unknown factors in fullback Mike Augustyniak and left guard Stan Waldemore.

Miami

It's time to stop downgrading the Dolphin defense with the "son of no-name" label or calling the quarterback Woodstrock just because David Woodley often is replaced by Don Strock. Part of Coach Don Shula's success is to win with personnel that others downgrade. Last season, only San Francisco lost fewer games.

Center Mark Dennard will miss the opening part of the season (broken arm) and placekicker Uwe von Schamann is just now regaining some of the 25 pounds he lost because of colitis.

Strengths — Offensive and defensive lines. Running backs include Tony Nathan and Andra Franklin.

Weaknesses — Secondary could be troubling, especially with early-season absence of left cornerback Don McNeal.

New England

First-year Coach Ron Meyer, given the authority to pick his own team, may be what the Patriots need — rules, conditioning, obedience. He traded regulars Russ Francis, who sat out last season, Tim Fox and Rod Shoate; more will follow. The No. 1 pick of the entire draft, Kenneth Sims, is improving at defensive end.

Strengths — Offensive line, anchored by John Hannah. Wide receiver Stanley Morgan averages 22.8 yards a reception. Secondary stocked with top draft picks.

Weaknesses — Three of the four linebackers have never started an NFL game. Of the front seven, five never started.

Buffalo

It is expected that Joe Cribbs, the best runner, will return. But what if he doesn't follow receiver Jerry Butler back into camp — or what if he waits a few games to return? Finishing 10-6, the Bills won three games last season by a total of six points.

Strengths — Outstanding protection by offensive line for quarterback Joe Ferguson. Defense tough to run against.

Weaknesses — Curtis Brown, an unspectacular rookie from Missouri, would replace Cribbs. Placekicking fair with Nick Mike-Mayer.

Baltimore

Frank Kush has nerve. He'll need it: The new coach has a team with no one over the age of 30 left on the roster. Mike Pagel, a fourth-round pick, will start at quarterback.

Strengths — Running back Curtis Dickey, wide receiver Ray Butler. Pagel has strong arm, knows the Kush system from their Arizona State days together.

Weaknesses — Memory of a 2-14 season. A 3-4 defense in which all the linemen have been injured. Poor protection by offensive line.

Central Division

Cincinnati

There doesn't appear to be much need for improvement — and there hasn't been. But many Bengals are moving into their fifth and sixth years.

Strengths — Quarterback Ken Anderson superb. Cris Collinsworth and Dan Ross don't drop passes. Top offensive line. Heavyweight runner Pete Johnson complements versatile passing game.

Weaknesses — Linebackers need sharpened pass-rushing. Defensive secondary sometimes victimized by poor pass rush.

Pittsburgh

There is a new strategy on offense and defense. Terry Bradshaw will blank his competitive fires and learn to throw 10 to 12 yards to his running backs, just as most other quarterbacks are doing.

The defense has been shifted; a three-man front takes over from the traditional four-man line. No. 1 draft pick, Walter Abercrombie, runs and catches passes.

Strengths — Solid core of veterans. Coverage expertly led by safety Donnie Shell and cornerback Mel Blount. John Stallworth and Lynn Swann marvels when healthy.

Weaknesses — Teaching old men new tricks. Serious questions about kicking game.

Cleveland

Love, Sam Rutigliano learned as coach, was not enough to keep the team going. But a couple of good linebackers might. So with their first draft pick the Browns plucked Chip Banks, and with their pocketbook they got Tom Cousineau. Both will start.

Strengths — Brian Sipe at quarterback. Potentially spectacular linebackers. Matt Bahr solves placekicking problem.

Weaknesses — Defensive line a question mark because it hasn't pressured people. Offense has to learn to score; it registers yardage but then stalls.

Houston

Problems. Coach Ed Biles said he had three players with decent showings last season. Two of them, strong safety Vernon Perry and linebacker Gregg Bingham, are out of action until October. Only one starter, Ken Kennard, returns from the defensive line.

Earl Campbell, Biles says, will run only 18 to 20 times a game instead of 22 to 24. That will work only if quarterback Gifford Nielsen gets better protection.

Strengths — Good depth in receivers Harold Bailey and Michael Holston and tight end Dave Casper.

Weaknesses — Offensive line may give Nielsen reason to cry.

Western Division

Denver

In a strange division, filled with an uprooted team and uprooted people, stability may be the key. Is there anyone more stable than Craig Morton, who is 39? Coach Dan Reeves will expand the passing game to allow quicker, shorter lobs.

Strengths — Linebackers Randy Gradishar and Tommy Jackson form nucleus of strong defense. Steve Watson an exceptional wide receiver.

Weaknesses — Offensive line could use shoring up. Another receiver needed to draw defenders from Watson.

L.A. Raiders

Their season could be over in a hurry. They are trying to establish themselves in a new city but are the only NFL team playing its first three games on the road — in San Francisco, Atlanta and San Diego. So it is possible for the Raiders to stumble at the start and then have little to attract new fans.

Jim Plunkett will throw the long pass only occasionally. Back Marcus Allen, the Heisman Trophy winner, will bring speed and an ability to catch.

Strengths — Quick-strike ability in Plunkett-to-Cliff Branch. Good offensive line.

Weaknesses — Team's nomadic existence. Bob Chandler, the sure-handed receiver, unlikely to start the season because of injured knee.

San Diego

The Chargers are confounding. Last season, they outscored everyone else in the league but gave up more points than 25 other teams. They acquired five players for the defense in the offseason. Only two, free safety Tim Fox and linebacker David Lewis, will start.

Strengths — Dan Fouts' passing to Wes Chandler. Offensive line allowed only 19 sacks last season.

Weaknesses — Uncertainty of Chuck Muncie after offseason drug program. Defensive tackle Louie Kelcher, who no longer is retired but is still overweight.

Kansas City

The quarterback question remains: Bill Kenney, the drop-back passer, or scrambler Steve Fuller? But the Chiefs do know that Joe Delaney, their remarkable rookie runner-receiver, is recovered from detached-retina surgery.

Strengths — Delaney and a defense that includes lineman Art Still and backs Gary Barbaro and Eric Harris.

Weaknesses — Risky to wait so long to choose the quarterback. Linebackers need improvement. Weak pass rush.

Seattle

Scrambling quarterback Jim Zorn is supposed to be mobile again after breaking his ankle last season. Coach Jack Patera says he finally has enough home-grown veterans on a team created in 1976. Six No. 1 draft picks, current and past, will be starting.

Strengths — Zorn and Steve Largent, who produced 75 receptions. Running back Theotis Brown.

Weaknesses — Offensive line and defense still being shifted around because of injuries.

CFL Standings

EASTERN DIVISION	W	L	T	PF	PA	Pts
Toronto	5	2	1	208	193	11
Hamilton	3	4	0	164	186	6
Montreal	1	6	0	84	239	2
Ottawa	1	7	0	172	243	2
WESTERN DIVISION						
Winnipeg*	7	1	0	251	158	14
British Clmb	5	3	0	248	187	10
Calgary	4	2	1	148	153	9
Saskatchwn	4	3	0	203	215	8
Edmonton	3	4	0	233	159	6

Sunday's Result
Winnipeg 36, Saskatchewan 35

Transactions

BASEBALL
American League

BALTIMORE—Announced that Earl Weaver, manager, will remain with the organization for the next two years as a special consultant.

National League

NEW YORK—Purchased Doug Sisk, pitcher, and Ronn Reynolds, catcher, from Jackson of the Texas League. Announced that Darryl Strawberry, outfielder, and Al Pedrique, shortstop, will join their Tidewater farm club in the International League for the rest of the playoffs.

69 by Peete Wins U.S. Tourney by 7

The Associated Press

ENDICOTT, N.Y. — Calvin Peete double-bogeyed the first hole Sunday but recovered to shoot a 2-under-par 69 and win the B.C. Open golf tournament by seven strokes over Jerry Pate. Peete's four-round total was a 19-under-par 265. Pate had a closing-round 73, while Fuzzy Zoeller finished 76/273.

Craig Stadler, fourth at 274, shot a final-day 66. Tom Kite and Mike Brannan tied for fifth at 275, while Antonio Cerda and Doug Tewell were at 276.

The triumph was the third of the season for Peete, who is having the best year for a black player in PGA history. His $49,500 first prize here put his 1982 earnings at $281,361.

Sigel Trounces Tolley In U.S. Amateur Final

Compiled by Our Staff From Dispatches

BROOKLINE, Mass. — Jay Sigel won the 82d U.S. Amateur golf championship with a lopsided 8-and-7 victory over David Tolley at The Country Club here Sunday. Tolley missed a putt on the 29th hole to end the match-play final, scheduled for 36 holes.

Sigel, 38, played in his first U.S. Amateur in 1962. He had appeared in 14 others and reached the semi-finals in 1977. He has been low amateur in the Masters twice and once in the British Open. He won the British Amateur in 1979, he is 9-0 as a member of three Walker Cup teams.

Cova Wins 10,000 At Athens Games

The Associated Press

ATHENS — Alberto Cova of Italy edged Werner Schildhauer of East Germany to win the 10,000 meters on Monday's opening night of European track and field championships.

Cova was timed in 27 minutes, 41 and three-hundredths seconds and Schildhauer in 27:41.21. Defending champion Martti Vainio of Finland took the bronze.

Only one other title was decided Monday. Ilona Slupianek of the Soviet Union, defending champion in the women's shot put, won the gold with an effort of 21.59 meters (70 feet 10 inches). Helena Fibingerova of Czechoslovakia was second (68-8½) and Nunu Abashidze of the Soviet Union was third (68-3¾). Slupianek holds the world record of 73-8.

Expos Win Despite Braves' 1-Hitter

Compiled by Our Staff From Dispatches

MONTREAL — Shortstop Rafael Ramirez booted a ground ball by Gary Carter with two out in the ninth inning Sunday to ruin a combined one-hit performance by Rick Mahler and Gene Garber and allow Montreal to defeat Atlanta, 2-1.

Ramirez's error, his second of the game and 31st of the season, enabled Andre Dawson to score the winning run from third. With one out, Dawson was hit by a pitch from Garber (6-8). He stole second and moved to third when Al Oliver grounded out. Carter then followed with his grounder to short.

BASEBALL ROUNDUP

Montreal's only hit was a second-inning home run by Oliver, his 20th of the year. Steve Rogers allowed six hits in going the distance for his 16th victory. The triumph moved the Expos to within 3½ games of first place St. Louis in the National League's Eastern Division.

Mets 10, Reds 2

In New York, Ellis Valentine hit a three-run homer in a seven-run second and rookie Bruce Bochy drove in four runs to help the Mets hammer Cincinnati, 10-2. In the seventh, Dave Kingman hit his league-leading 33d home run of the season.

Dodgers 2, Pirates 1

In Los Angeles, Pittsburgh's Ron Roenicke led off the 10th with a double and scored the winning run in a 2-1 contest when Dodger outfielder Doug Frobel, playing in his first major league game, lost Greg Brock's lazy fly ball in the sun. Los Angeles had tied the score in the eighth on a pinch-hit homer by Jose Morales.

Giants 5, Cardinals 1

In San Francisco, Joe Morgan doubled in two runs in a four-run eighth as the Giants downed St. Louis, 5-1, for a three-game sweep. Loser John Stuper (6-5) had a two-hitter until Darrell Evans doubled with two out in the eighth; Milt May was walked intentionally and pinch hitter Champ Summers singled to left to score Evans.

Phillies 4, Astros 3

In Philadelphia, Mike Schmidt and George Vukovich hit consecutive first-pitch home runs off Nolan Ryan in a three-run sixth as the Phillies defeated Houston, 4-3, and swept a three-game series. Ryan (14-10) had won six straight.

Cubs 5, Padres 1

In San Diego, Keith Moreland hit his 13th homer of the year in a four-run fifth to help Chicago beat the Padres, 5-1.

Yankees 18, Royals 7

In the American League, in Kansas City, Mo., Roy Smalley hit home runs from each side of the plate — the 12th American Leaguer ever to accomplish the feat in one game, and each time with two men on — to help New York thrash the Royals, 18-7. Smalley's homer from the left side, off Dennis Leonard (9-4), came in the second and gave the Yankees a 3-0 lead. He homered hitting right-handed in the sixth off Don Hood.

Red Sox 6, Mariners 5

In Seattle, Jerry Remy came home on Carl Yastrzemski's fielder's-choice grounder with the bases loaded in the 10th to defeat Seattle for the Red Sox, 6-5. Remy led off with a single and Dwight Evans walked. Jim Rice was hit by a pitch from Bill Caudill (11-7), who was replaced by Ed VandeBerg. Yastrzemski then hit a 3-1 pitch to second baseman Julio Cruz, whose off-balance throw was wide as Remy slid home safely.

Tigers 8, A's 1

In Detroit, Jack Morris pitched a two-hitter and Larry Herndon hit a three-run home run to help the Tigers rout Oakland, 8-1. The only hits allowed by Morris (15-14) were Dwayne Murphy's 22d homer, in the third, and Jeff Burroughs' single in the seventh.

Rangers 10, White Sox 7

In Chicago, Larry Parrish, Jim Sundberg and Bucky Dent each had three of Texas' season-high 19 hits as the Rangers ended a six-game White Sox winning streak, 10-7. Texas, which had lost a 5-1 lead and fell behind, 6-5, rallied for four runs in the fifth capped by Buddy Bell's bases-loaded, two-run single.

Blue Jays 6, Indians 5

In Cleveland, Al Woods drove in three runs and Lance Mulliniks hit a two-run home run as Toronto ended a six-game losing streak by beating the Indians, 6-5.

Orioles 5, Twins 4

In Baltimore, Ken Singleton's two-out, two-run, pinch-hit triple in the seventh helped the Orioles to their eighth straight victory, a 5-4 triumph over Minnesota. The winners' Storm Davis, at 20 the youngest player in the major leagues, pitched four innings of one-hit, no-walk shutout relief.

Brewers 8, Angels 5

In Milwaukee, Don Money's triple and Mark Brouhard's two-run homer sparked a five-run sixth that gave the Brewers an 8-5 decision over California.

Major League Standings

NATIONAL LEAGUE

Eastern Division	W	L	Pct.	GB
St.Louis	76	59	.563	—
Philadelphia	76	60	.559	½
Montreal	73	63	.537	3½
Pittsburgh	72	64	.529	4½
Chicago	60	77	.438	17
New York	53	81	.395	23½
Western Division				
Atlanta	76	60	.559	—
Los Angeles	75	62	.547	1½
San Diego	71	66	.518	5½
San Francisco	69	67	.507	8
Houston	63	73	.463	14
Cincinnati	52	84	.382	25

AMERICAN LEAGUE

Eastern Division	W	L	Pct.	GB
Milwaukee	81	55	.596	—
Baltimore	76	58	.567	4
Boston	76	59	.563	4½
Detroit	69	65	.515	11
New York	69	65	.515	11
Cleveland	64	69	.481	15½
Toronto	62	75	.452	19½
Western Division				
Kansas City	78	58	.574	—
California	76	60	.559	2
Chicago	72	63	.533	5½
Seattle	63	72	.467	14½
Oakland	59	78	.431	19½
Texas	53	82	.392	24½
Minnesota	48	87	.355	29½

Sunday's Baseball Line Scores

NATIONAL LEAGUE

Atlanta 000 000 100—1 6 3
Montreal 010 000 001—2 1 0
Mahler, Garber (8) and Sinatro; Rogers and Carter. W—Rogers, 16—7. L—Garber, 6—8. HR—Montreal, Oliver (20).

Cincinnati 010 100 000— 2 11 2
New York 070 010 20x—10 9 2
B.Shirley, Hayes (2), Leibrandt (6) and Trevino; Lynch, Orosco (7). W—Lynch, 3—6. L—B.Shirley, 6—11. HRs—New York, Valentine (8), Kingman (33).

Houston 001 002 000—3 9 0
Philadelphia 100 003 00x—4 6 1
Ryan, D.Smith (8) and Ashby; Bystrom, Bohnsen (3), Altimirano (6), Monge (7), R.Reed (8) and Virgil, B.Diaz (7). W—Altimirano, 3—0. L—Ryan, 14—10. HRs—Philadelphia, Schmidt (30), Vukovich (6).

Chicago 000 140 000—5 10 0
San Diego 000 001 000—1 7 1
Martz, Proly (4), W.Hernandez (8), Le.Smith (9) and J.Davis; Dravecky, Chiffer (5), Griffin (6), Hawkins (8) and Swisher. W—Martz, 9—8. L—Dravecky, 4—2. HR—Chicago, Moreland (13).

St.Louis 000 001 000—1 6 0
San Francisco 000 001 04x—5 5 1
Stuper, Martin (8), Kaat (8) and Porter; Breining and May. W—Breining, 8-4. L—Stuper, 6-5. HR—San Francisco, Davis (15).

Pittsburgh 000 000 010 0— 1 9 0
Los Angeles 000 000 010 1— 2 7 1
McWilliams, Tekulve (9), Scurry (10) and Yeager; Hooton, Niedenfuer (9) and Nicosia. W—Niedenfuer, 3-2. L—Tekulve, 10-8. HR—Los Angeles, Jose Morales (1).

AMERICAN LEAGUE

Oakland 001 000 000—1 2 1
Detroit 005 012 00x—8 11 0
Keough, Owchinko (3), Hanna (5), D'Aquisto (7) and M.Heath; Morris and Fahey, Wockenfuss (4). W—Morris, 15—14. L—Keough, 11—17. HRs—Oakland, Murphy (22). Detroit, Herndon (21).

Toronto 000 221 010—6 12 2
Cleveland 110 000 210—5 11 1
Leal, R.L.Jackson (7), D.Murray (7) and Petralli; Barker, Glynn (6), Spillner (8) and Hassey. W—Leal, 10—12. L—Barker, 12—11. HR—Toronto, Mulliniks (4).

Minnesota 000 022 000—4 9 5
Baltimore 010 013 00x—5 9 2
Viola, Redfern (5), Little (6) and Butera; D.Martinez, G.Davis (6) and Dempsey. W—G.Davis, 6—3. L—Redfern, 5—11. HRs—Minnesota, Ward (23), Gaetti (22).

Seattle 011 020 001 0—5 12 0
Boston 000 000 203 1—6 12 0
B.Stoddard, Stanton (8), Caudill (9), VandeBerg (10) and Sweet, Essian (8); Rainey, Burgmeier (6), Clear (10) and Allenson, Gedman (9). W—Clear, 13—7. L—Caudill, 11—7.

Texas 203 040 010—10 19 1
Chicago 100 510 000— 7 14 0
Butcher, Matlack (4), Schmidt (7) and Sundberg; Lamp, Barojas (3), Brusstar (5), Hickey (5), Escarrega (8) and Hill, Fisk (7). W—Matlack, 6—6. L—Barojas, 6—5. HR—Chicago, V.Law (4).

California 000 100 220—5 10 0
Milwaukee 000 005 30x—8 11 1
Zahn, Stierer (6), Hassler (7), Sanchez (7) and Boone; Caldwell, Ladd (9) and Yost. W—Caldwell, 14—11. L—Zahn, 15—7. HRs—California, Downing (24), ReJackson (34), Baylor (22). Milwaukee, Brouhard (3).

New York 030 434 004—18 15 0
Kansas City 030 000 130— 7 8 2
Guidry, Frazier (8) and Cerone; Leonard, Hood (4), Castro (7), Armstrong (9) and Wathan, Slaught (7). W—Guidry, 14—5. L—Leonard, 9—4. HRs—New York, Smalley 2 (14), Winfield 2 (29). Kansas City, White (7), Aikens (10), McRae (23).

ART BUCHWALD

Good Loans and Bad

WASHINGTON — Bankers have been receiving a tarnished image lately, mainly because they have been making a lot of bad loans. I think they're getting a bad rap.

I was in the bank the other day where my nephew was applying for a loan to buy a car. The bank demanded a co-signer for the note and I was happy to oblige.

Buchwald

The flinty eyed vice president took out a form consisting of 20 legal-sized pages and said to me, "You have to fill this all out. We want to know everything about both of you; where you were born, the names of your relatives, your education, how many times you have been arrested, and a complete list of all your assets and liabilities."

"You're very thorough for a $5,000 loan."

"We have to be," Flinty Eyes said. "This bank's reputation is on the line every time someone borrows money from it."

* * *

My nephew and I started filling out the blanks when a well-dressed man came up to the desk.

"I'm from Dryup Securities," the man said, as he shook Flinty Eyes' hand vigorously. "I'd like to borrow $500 million in government securities for three months at 16 percent."

Flinty Eyes brightened up and he pulled open his top drawer and started piling bonds on his desk. "Help yourself," he said.

The man stuffed them in a suitcase. "Do you want me to sign for them?"

"Your word is good enough for me," Flinty Eyes said. "Just see they don't get lost."

The man walked away and I said, "You didn't even ask his name."

"Dryup Securities is a solid institution. I'm not going to embarrass a man with questions when he deals in government securities. You forgot to fill out your wife's church affiliation."

I went back to the application and a diplomat with a walrus mustache came up. "Señor, I am from the government of Mexico, and I wish to borrow a billion dollars, because the peso has just gone to hell."

"Of course, sir." Flinty Eyes rang a buzzer for a guard and said to him. "Take this Mexican official down to the safe and give him a billion dollars."

"Thank you, señor. You are a good neighbor."

* * *

I was impressed. "You really make quick decisions."

"If I had said no he would have gone to Chase Manhattan for the loan, and my bosses would have been furious."

"Do you really want six references for a lousy $5,000 loan?" I asked.

"Those are the rules," Flinty Eyes said. "We have to have ironclad safeguards when someone wants to buy a car."

The finance minister of Poland came up and gave the vice president a $10 bill. "That should take care of the August interest on our $2-billion loan."

Flinty Eyes smiled. "Thanks a lot. We didn't expect this until September."

"Poland always pays its debts."

My nephew and I finally finished filling out the forms.

Flinty Eyes took them. "It will take 10 days to check you out," he said.

"That long," I laughed.

"Consumer credit is not something we treat lightly. If you don't hear from us, you'll know we decided you're a rotten risk."

We got up to leave. Flinty Eyes' secretary came over. "Braniff Airlines wants to renew their loan."

"Then renew it. Why are you always bothering me with details?"

Archaeologists Unearth Ancient Greek Theater

New York Times Service

ATHENS — Archaeologists say they have discovered the theater where King Philip II of Macedon, father of Alexander the Great, was assassinated in 336 B.C.

Professor Manolis Andronikos of Salonika University said that the theater was 100 meters from the central palace at Vergina, a village now believed to be the ancient Macedonian capital of Aegae.

Andronikos said there was "no doubt whatsoever" that the theater was the one where Philip was slain by an officer of his guard during a celebration before he was to embark on a new military compaign.

Haig's Think-Tank Plunge

By Paul Hendrickson

Washington Post Service

CROTON-ON-HUDSON, New York — Most people who come for the day to the Hudson Institute ride the 8:02 up from Grand Central in Manhattan. They are met at the station in Croton-Harmon by a likable fellow named Gene who conveys them to the "campus" in a beat-up brown station wagon. But Alexander Haig's arrival was clearly something different.

Into this leafy sanitarium of thought a little after 11 one recent morning rolled a shiny black limo. The thing was big as a barge and looked menacing. Cameras clicked and whirred. Bill the chauffeur had picked up his passenger, and the passenger's aide, at the shuttle gate at La Guardia. Beside him, on the front seat, lay a copy of a recent biography of the man behind the glass panel, but since the book is something of an unflattering biography the driver decided not to ask the former secretary of state to sign it.

Alexander M. Haig Jr., 57, the Man Who Would Be Reflective, was on his way to meet the staff of the Hudson Institute. He had signed up as the institute's newest (and lone) Senior Fellow.

According to Tom Bell, institute president, a senior fellow is a kind of ambassador without portfolio. He can roam as he wishes, dip into this or that, have at his disposal the institute's immense research facilities. Haig, who will occupy his fellowship from a new Washington office, not from Croton-on-Hudson, is said to be interested in East-West relations, defense problems, tensions in the Atlantic economic community. He will make a "small" salary, says Bell. "Not anything you could get anybody to come here for."

Venerable Think Tank

The Hudson Institute is one of the country's venerable think tanks for policy research. It is presided over by the immense — both physically and intellectually — Herman Kahn, premier "futurologist." Kahn is the man who gave us the nuclear term "thinking about the unthinkable." He is one of the early "defense intellectuals." These days he is a Japanist.

In personality and appearance, Haig and Kahn seem exact opposites. Kahn is loose; Haig is tight. Kahn suffers from obesity and narcolepsy and will strike up conversations with stunned people on subways. Haig, ever spit and polish, has undergone multiple bypass heart surgery, yet smokes and also drinks things with caffeine in them. His foot dances ceaselessly under conference tables.

Kahn co-founded Hudson two decades ago and is its director. Some people call it Herman-on-Hudson. Kahn and Haig go back to when the soldier was a captain at West Point. Later, in the Nixon White House, when Kahn found himself having problems getting in to see Henry Kissinger, Al Haig — who was Kissinger's man — became the conduit for the Hudson Institute's nonstop flow of ideas. Haig and Kahn have been congenial ever since.

At his first Hudson briefing, Haig had on a banker's pinstripe suit and what looked like a silk tie. Kahn was in a short-sleeve dress shirt and no coat and his Amish elder's wreathing beard. The two seemed genuinely delighted to be with each other. "It's incredible to have as part of our team a man who actually ran the system — and didn't ossify from it," Kahn said, making the formal introductions. "In many ways, Al, your career is just beginning."

Haig laughed, although not with any enthusiasm.

Later, when the guests were gone, Kahn said: "I've never had any trouble explaining any of my ideas to Haig." He paused. "Being a general is very bad for you, you know."

The Hudson Institute is a child of the Rand Corp. and traces its history to the first heady years of the '60s when, as someone has said, growth was the American religion and R&D was its gospel.

Hudson is a pastoral, informal, slightly-out-at-the-elbows place. In the '20s it was a sanitarium for the wealthy; now it is a retreat for the extremely brainy. About 35 young and old heads from Harvard and Oxford and other places smoke pipes and eat lunch in a woody room that looks like a prep school dining hall. After lunch these same heads go back to their slightly tattered offices and write sober monographs on things like "Coercive Tactics in Nuclear War" and the bilateral trade imbalance.

In Washington, Haig's office is on the eighth floor of the Madison Office Building. Hudson, which derives much of its subsidy from government contracts, has long maintained a presence in Washington, although nothing so formal as now.

There are those who would say the Hudson Institute has been losing out lately to other think tanks more strategically located. The Center for Strategic and International Studies, associated with Georgetown University, has both Zbigniew Brzezinski and Henry Kissinger. There is a report that Haig was offered a spot at the American Enterprise Institute and turned it down. "It didn't get to that point," says Woody Goldberg, Haig's senior adviser.

"We were thinking of opening our own Washington offices anyway, this just hastened us along," says Bell.

Haig seemed remarkably fit on his arrival at Croton. Eight days at a tennis ranch in Arizona had tanned him and further flattened an already flat belly. The jaw still jutted (even as he got out of the limo), though not so acutely. The sharp blue eyes surveyed this bucolic realm (it was his first trip to Hudson) and apparently were not disappointed. But if he seemed at ease, he didn't look like a man about to retire to Great Thoughts. He looked pretty much like the man who, in 1967, was merely a lieutenant colonel in Vietnam, then began one of the fastest military catapults in history.

In July of this year Haig checked into the Texas Heart Institute in Houston. At the end of the physical, the doctor walked in and said, "Congratulations, Al." There wasn't a bad blip on the screen, Goldberg said.

An Opposite Image

After Haig's limo had rolled off, Kahn said: "Your image of him is that of opportunist, someone abrasive. My image is exactly opposite: a man who knocks himself out for his boss and his country. I'm not saying he isn't the former, just that I have known him another way. I ran into him once in the Bahamas. He looked at me and said, 'You're right, Herman, this is my first vacation in 15 years.' "

Several years ago, after Haig had left the NATO command but had not yet signed on with United Technologies Corp. in Connecticut, Kahn tried to lure Haig to the Hudson Institute. It almost worked. This time, after the resignation from the Reagan White House, Kahn just called up his old acquaintance and got an almost immediate acceptance.

Much in the manner of 300-pound gorillas, former secretaries of state can do about anything they choose. According to Goldberg, there were nearly a thousand letters of invitation after Haig's resignation in June, everything from Rotary speeches to jobs running foundations.

He could have gone solely into corporate life. (According to Goldberg, there will be a renewed association with United Technologies soon.) He could have taken over a national foundation "on the level and quality" of the Ford. He could have gone solely into the academic world. (He will lecture this fall at Princeton and, though it hasn't been announced yet, will probably accept a Chubb fellowship to Yale. Then, too, he will attend his 35th class reunion at West Point at the end of October and do a session with cadets.)

'Open-Ended Deal'

The relationship with Hudson might be called a marriage of convenience. Says Goldberg: "At the secretary's age and vigor, retirement was out of the question. The Hudson Institute came to us and said, 'We want to have a relationship with you. How can we help you?' They asked for nothing, they demanded nothing. It's an open-ended deal."

For now, says Goldberg, Haig will be occupying the Madison Office Building suite for six months. During that time he will make up his mind whether he wants to stay in Washington.

Says Kahn: "As a sheer business proposition, Haig's coming here was a wonderful coup."

James M. Thresher, The Washington Post

Alexander Haig, Hudson-on-the-Potomac.

PEOPLE

Olivier Tells of Losing Love of Vivien Leigh

Actor **Laurence Olivier** says in his memoirs that the worst moment of his life was when he was told by his wife **Vivien Leigh**: "I don't love you any more." The actress, who played Scarlett O'Hara in the film "Gone with the Wind," delivered her confession after the couple returned to England from a tour of Australia in 1948. Olivier recalls in his autobiography, "Confessions of an Actor," that he already knew on the tour that Vivien was "lost to me" because she was attracted to Australian actor **Peter Finch**. Despite the tense love triangle, Olivier was so impressed by Finch's ability that he got the Australian his first role in London, as the Viennese lover in **James Bridie**'s play, "Daphne Laureola." It was after Finch was settled in the role that Vivien Leigh told her husband how she felt about their marriage, although she claimed: "There's no one else or anything like that, I mean I still love you but in a different way, sort of, well like a brother." "I felt as if I had been told that I had been condemned to death," Olivier writes. The memoirs appeared in the Sunday Telegraph, in the first of four extracts from Olivier's book, to be published in London Oct. 14. The couple, who wed in 1940, divorced in 1961. Vivien Leigh, who suffered from tuberculosis, died in 1967. Finch died 10 years later. Olivier remarried in 1961 to **Joan Plowright**.

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More than 1,000 spectators laughed and applauded as French mime artist **Marcel Marceau** made his Peking debut with what the Chinese news agency called "eloquence, deceptive simplicity and grace." The agency quoted **Liu Houshang**, secretary-general of the Chinese Dramatists' Association, who said Marceau showed superb artistry in his control of every part of his body.

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British rock singer **Eric Burdon** was fined 13,500 marks (about $5,440) Monday on a year-old drug charge, a Justice Department spokesman in Munich said. Burdon, former lead singer for The Animals group, was convicted of buying one gram of cocaine in a Munich night club a year ago, the spokesman said. He was picked up Wednesday night on an old warrant by Bavarian border police as he was traveling by train to Austria on a tour.